WealthBriefing SWISS EAM AWARDS 2022 PORTFOLIO MANAGEMENT TEAM — WINNER — Apricus Finance

From Inflation to Recession or Both?

Just ten days ago it seemed that markets and the economy had navigated through the worst case scenario, and that we had reached 'peak bad news':

- We believed we had seen the peak in inflation, with the US Fed preferred gauge core PCE printing a still elevated 4.9%, however off the highs set in February
- We therefore believed that we had seen peak hawkishness in the Fed narrative
- The market was, and is, doing the job for the US central bank: as 30-year fixed mortgage rates are around 6%, the highest level since the 2008 GFC, and mortgage demand fell to the lowest in 20 years
- Some indicators, such as the JOLTS, (job openings), in the US hospitality sector are well off their highs, indicating some cooling of the tension in the US job market
- The US administration was looking at potentially withdrawing some of the tariffs on Chinese exports
- China was reopening its cities, and gave increased signals of a more moderate approach in regulating its tech giants, by for example, approving dozens of new games

The market was therefore starting to price a benign outcome: central banks would hike rates, but not as much as to eventually push the economies into recession. Mid-month we had the 'shocking' bad results from the likes of Target and Walmart, which questioned the health of the US consumer. The results were bad because of inventory miss-management: as we highlighted in previous reports, the post-pandemic consumer 2.0 is splurging on services such as traveling, SPAs, improving its looks by purchasing make-up or renewing its wardrobe to attend weddings and social events. Target and Walmart found themselves with a huge inventory of items such as TVs and other electronic gadgets that consumers are not buying anymore. Then came last week's inflation shocker: the headline number printed 8.6%, along with the publication of the Michigan consumer survey, which was at a record low, (the survey has existed since 1978). 25% of the inflation index, with post-pandemic items such as TVs, (-10% YoY), or used cars, (flat year to date), are now a drag on the index, while politically sensitive food and energy are rising fast, for reasons that have very little to do with either the central bank or the US administration economic policy, and therefore are much more difficult to control. In the current environment, the US Fed has thus little room to manoeuver, and the risk is high for a monetary policy mistake, hiking too much, too late and thus causing a recession: the treasury market is already reflecting this risk, as the 5 year - 30 year has now inverted.

With aggressive moves by the US Federal Reserve back in play, the consequences have been devastating for the financial markets, particularly for the bond market: the US curve flattened, with 2-year yields rising to 3.2%, a level last seen in 2007. In Europe, the 10 year yield on German Bunds advanced by 177 bps year to date, about the same amount as the US equivalent. Particularly worrying here is the widening of spreads in the European periphery led by Italy. As we pointed out in the past, we think the pain threshold for the ECB is probably between 250 and 300 bps on 10-year rates, beyond that level the ECB will be likely intervene in some form.

Of note is also the behavior of the Bank of Japan: it is the only major central bank, (China's PBOC is also on an easing path but in a different way), that kept its Yield Curve Control, actually recently even increasing its bond purchases, pushing the Japanese YEN to levels last seen in 1998.

Over in China, the government has started to re-impose Covid restrictions just weeks after easing them in major cities, raising concerns it may once again employ strict lockdowns, hampering the normalization of supply chains. Also, in recent days, there was an escalation in the rhetoric on Taiwan, with the Chinese defense minister going as far as warning about the risk of war.

After the publication of the data and in combination with the news out of China, the sell-off in equity markets has been broad based, as the markets increasingly priced the probability of a recession, while the USD rose, particularly against cyclical currencies, such as the Australian dollar and the Norwegian Crown.

In absolute terms, equities are certainly more attractive than just a few weeks ago, but are also relatively less attractive as an asset class, particularly in the US where now a dividend yield of 1.7% for the S&P500 competes with 2-year rates at 3.2%, and at 16 times forward earnings it doesn't really discount a recession. The opposite is true in Europe, where dividend yields of 3.5% can be found, versus a 2-year German Bund at 1.1%, and as the markets fully discount a quite severe recession with forward PE ratios of 10 to 11 times. But Europe is obviously also very close geographically to Ukraine.

Also, the economic and financial costs of the war in Ukraine are mounting rapidly for Europe and it remains to be seen how long EU members will show compact solidarity in shoring up the Ukrainian army in terms of arms shipment, as well as financial help to keep its economy afloat.

The upcoming reporting season will thus be crucial, as up to now high inflation only had a limited impact on margins: at the moment most European companies are still investing, hiring and painting an ok future, while in the US companies such as Microsoft have started complaining about the strength of the dollar.

Finally just one word on cryptos: the carnage or 'crypto winter' in this space could continue, as most investors are now underwater with the average price of their investments. Also remember that retail investors in the US had to pay taxes on their 2021 gains, while there is a limited amount they can deduct for their losses. Lastly, how is it possible to assess the value, if there is any , of over 19'000 cryptos?

STRATEGY

Despite recent economic and geopolitical events, we have decided to keep the equity exposure unchanged, as we believe that the ECB will avoid to push Europe into recession, and the markets are already pricing one. Where we are looking to do some changes is in credit, whereby we are looking at lowering the credit risk of the portfolios.

POSITIONING

Overall Exposure

We are Overweight Equities, and Underweight Fixed Income, with a long Gold position, fully USD hedged.

Equity: Overweight

Overweight Continental Europe, Neutral UK, Underweight US, Neutral Japan, Overweight Asia.

Thematic Equities

Health Improving Technologies and Services, Asian Technology, European Family Holdings, European COVID Recovery, Pet and Animal Wellbeing, the UN's 17 Sustainable Development Goals, Emerging Markets Healthcare

Fixed Income: Underweight

Underweight High Yield in EUR and USD. Overweight Investment Grade EUR and USD Bonds, Underweight Sovereigns. Long Global Inflation Linked Securities, Long US Municipal Infrastructure Bonds, Long Hybrids & Long Asian Bonds.

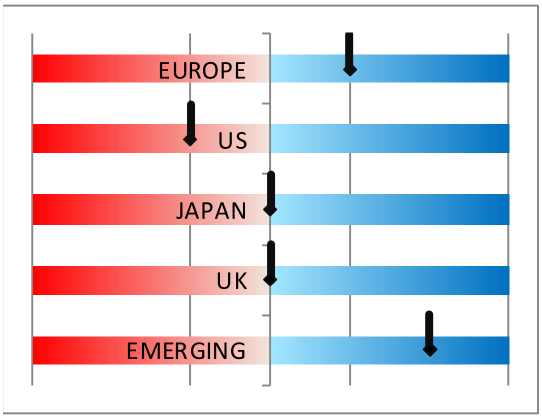
Currencies: Portfolios are fully USD hedged

Commodities: Overweight

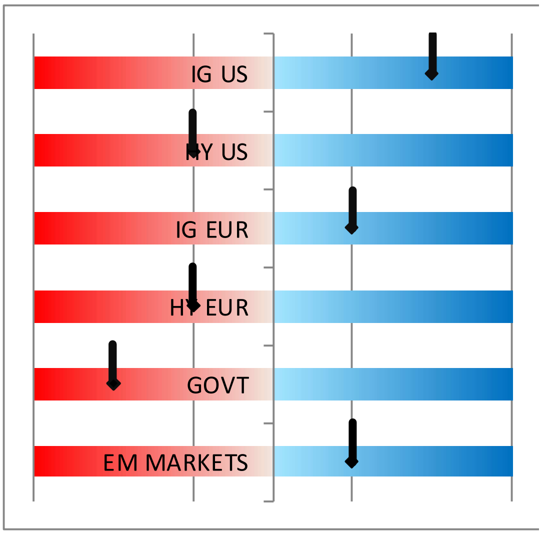
Long Gold

Conviction Thermometer

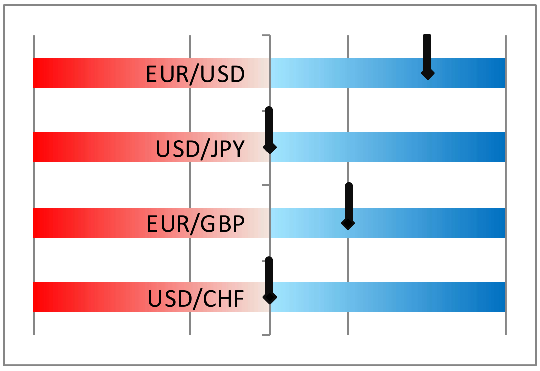
Equities



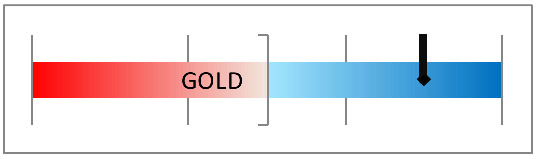
Bonds



Currencies



Commodities



*Negative view / Positive view

MARKET OVERVIEW AS OF 31ST MAY 2022

EQUITIES (local ccies)	Level	5D	MTD	YTD	2021
MSCI WORLD	2 791,01	4,16%	0,15%	-12,75%	22,38%
GERMANY DAX	14 388,35	3,37%	2,06%	-9,42%	15,79%
FRANCE CAC40	6 468,80	3,74%	0,49%	-7,42%	31,88%
UK FTSE100	7 607,66	1,68%	1,13%	4,78%	18,40%
BELGIUM BEL20	3 894,33	0,13%	-3,71%	-7,89%	21,86%
SWISS MARKET INDEX	11 611,38	1,18%	-4,05%	-7,37%	23,73%
EUROPE EURO STOXX 50	3 789,21	3,92%	1,34%	-9,47%	24,10%
US S&P500	4 132,15	4,87%	0,18%	-12,76%	28,68%
NASDAQ 100	12 642,10	7,42%	-1,53%	-22,27%	27,51%
RUSSELL 2000	1 864,04	5,66%	0,14%	-16,58%	14,78%
JAPAN TOPIX	1 912,67	1,84%	0,69%	-2,80%	12,77%
MSCI EMERGING	1 077,67	6,06%	0,46%	-11,72%	-2,32%
BRAZIL IBOVESPA	111 351	0,70%	3,22%	6,23%	-11,93%
MEXICO MEXBOL	51 752,53	1,61%	1,85%	-1,25%	24,07%
RUSSIA MICEX	2 355,75	2,71%	-3,43%	-37,32%	21,88%
CHINA CSI 300	4 563,77	3,49%	2,08%	-16,95%	-3,51%
INDIA SENSEX	55 566,41	3,16%	-2,17%	-3,96%	23,23%
KOREA KOSPI	2 663,34	3,07%	-0,34%	-9,65%	5,56%
HONG KONG HANG SENG	21 415,20	6,73%	2,15%	-7,60%	-11,84%
AUSTRALIA ALL-SHARE	4 201,96	1,86%	0,70%	1,46%	18,29%
SAUDI ARABIA TADAWUL	12 921,74	5,05%	-5,64%	15,64%	33,19%

US: Sectors	Level	5D	MTD	YTD	2021
COMMUNICATION SVCS	201,56	6,10%	1,79%	-24,35%	21,57%
CONSUMER DISCRETIONARY	1 209,69	12,29%	-4,85%	-24,69%	24,43%
CONSUMER STAPLES	772,20	1,56%	-4,61%	-3,16%	18,63%
ENERGY	658,00	3,25%	15,77%	58,43%	54,35%
FINANCIALS	588,47	4,60%	2,73%	-8,78%	34,87%
HEALTH CARE	1 537,92	0,72%	1,44%	-5,83%	26,13%
INDUSTRIALS	798,27	3,95%	-0,48%	-10,15%	21,10%
INFORMATION TECHNOLOGY	2 452,89	6,51%	-0,85%	-19,39%	34,52%
MATERIALS	539,06	3,08%	1,14%	-4,72%	27,28%
REAL ESTATE	276,44	1,93%	-5,02%	-14,19%	46,14%
UTILITIES	375,72	0,38%	4,32%	4,65%	17,67%

EUROPE: Sectors	Level	5D	MTD	YTD	2021
BASIC MATERIALS	3 232,49	3,11%	1,11%	6,42%	22,50%
CONSUMER GOODS	4 341,10	2,95%	-4,23%	-4,60%	25,09%
CONSUMER SERVICES	1 261,25	6,57%	-1,15%	-16,61%	22,44%
FINANCIALS	751,77	2,03%	2,36%	-3,20%	29,12%
HEALTH CARE	3 447,24	0,35%	-3,29%	-0,14%	27,58%
INDUSTRIALS	3 025,97	3,63%	-2,57%	-17,47%	31,32%
OIL & GAS	1 468,85	3,35%	9,79%	29,80%	26,63%
TECHNOLOGY	1 315,50	4,66%	-1,80%	-23,76%	38,92%
TELECOMS	634,11	1,59%	2,68%	6,32%	16,24%
UTILITIES	2 047,39	-0,65%	-0,52%	-1,36%	7,75%

WORLD: Styles	Level	5D	MTD	YTD	2021
QUALITY	3 347,69	4,69%	-1,05%	-17,50%	25,66%
MOMENTUM	3 265,55	5,97%	-0,16%	-16,54%	14,64%
VALUE	11 395,93	2,61%	2,07%	-3,64%	21,94%
GROWTH	7 539,96	6,10%	-2,26%	-22,22%	21,18%
VOLATILITY	8 051,46	3,32%	-0,34%	-11,34%	21,77%
SIZE	7 549,84	3,41%	0,57%	-11,26%	18,02%
DIVIDEND	4 509,42	2,40%	0,75%	-6,37%	19,40%

FIXED INCOME	Level	5D	MTD	YTD	2021
Pan-Euro 3-5 yrs IG	204,13	-0,35%	-0,67%	-6,11%	-0,51%
Euro Aggregate	240,69	-1,00%	-1,51%	-10,02%	-2,85%
Pan-Euro HY Hedged Eur	383,88	0,64%	-1,31%	-8,00%	3,46%
Global Inflation hedged EUR	259,39	-1,17%	-3,59%	-9,80%	4,66%
US Corp High Yield	2 264,90	3,02%	0,25%	-8,00%	5,28%
EM USD Aggregate TR	1 260,87	1,07%	-0,02%	-13,17%	-1,65%
EM Aggregate TR Local Ccy	140,28	0,75%	0,47%	-6,16%	-1,59%
EUR Banks CoCo Tier 1	143,70	1,93%	0,04%	-8,28%	4,65%
EU GOVT HEDGED EUR	221,23	-1,55%	-2,08%	-11,85%	-4,21%
Global Aggregate	2 554,99	-0,46%	0,27%	-11,06%	-4,71%

COMMODITIES	Level	5D	MTD	YTD	2021
GOLD	1 837,35	-1,56%	-3,14%	0,45%	-3,64%
COPPER	429,60	-0,68%	-2,25%	-3,75%	26,84%
OIL WTI	114,67	4,46%	9,53%	52,47%	55,01%
OIL BRENT	122,84	8,17%	12,35%	57,93%	50,15%

CURRENCIES	Rate	5D	MTD	YTD	2021
EURUSD	1,0734	-0,02%	1,79%	-5,59%	-6,93%
GBPUSD	1,2602	0,56%	0,22%	-6,87%	-1,01%
USDJPY	128,67	1,45%	-0,79%	11,81%	11,46%
USDCHF	0,9595	-0,06%	-1,27%	5,10%	3,13%
AUDUSD	0,7177	1,00%	1,64%	-1,18%	-5,60%
USDRUB	62,49	12,88%	3,63%	-16,30%	-11,08%
USDCNY	6,6718	0,35%	-0,13%	-0,13%	5,28%
USDKRW	1 106,85	0,20%	0,07%	0,07%	4,22%
USDINR	77,64	0,06%	1,58%	5,72%	9,15%
USDTRY	16,4040	1,94%	10,43%	23,30%	78,81%
BITCOIN	31 788	7,98%	-17,56%	-31,39%	59,79%

31.05.2022

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