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WealthBriefing SWISS EAM AWARDS 2022 PORTFOLIO MANAGEMENT TEAM WINNER Apricus Finance

A MONTH TO FORGET, WITH NO PLACES TO HIDE

Last month we were asking ourselves whether we were transitioning from a high inflation scenario to a recessionary one, or albeit one that would include both. Mid-month the markets abruptly decided it was the case for a recession. The reduction or even potential stoppage of gas flows to Europe from Russia, (a non-restart of flows from Nord Stream after the scheduled maintenance in July), hot inflation prints, central bank actions, fears of further lockdowns in China, all contributed to dramatic price action in all asset classes, albeit not simultaneously. We can divide the month in two: during the first part of the month inflationary fears dominated, while recessionary fears dominated the second part.

First half of the month:

- In about ten days, global equities fell 11%
- 2-year German yield hit 1.2%, and US 10-year yields hit 3.5%
- Credit spreads were rather stable

Second half of the month:

- Equities were volatile but more stable
- 2-year German yield retreated to below 0.4%, and the US 10-year yield went back to 2.8%. The US curve inverted to a level last seen in 2007
- Credit spreads rose sharply: excluding the market freeze during the first lockdown of March 2020, an indicator of US High Yield rose to the highest since early 2016, when the world was scared about the implosion of the US shale oil sector; while a gauge for European high yield reached levels last seen in 2012, when the survival of the European currency was still very much in question
- Crude oil and copper dropped 20%, (copper is back to December 2020 levels)
- Gold dropped 5%
- The USD strengthened against pretty much every currency, the Euro dropped 5% and approached parity, (as per yesterday)
- European dividend futures for 2023 dropped 9%
- And good news amidst the current food crisis, palm oil dropped 35% as wheat retreated 18%: for palm oil Indonesia restarted exports, while for wheat the speculative community sold out to reduce the risk. Also, maybe the news that some ships were starting to leave Ukraine after weeks of blockade might also have helped

Overall, it has been a month during which it has been extremely complicated to understand the market's dynamics, and hence take decisions for future positioning. What is certain, is that the US stock market had its worst first half in 50 years, and should credit close the year here, it would be its worst year in history.

In addition to the dismal performance of equities and bonds this year, the dispersion within equity indices has been huge, and explains the big differences in performances of portfolio and fund managers: within the S&P 500, the 40 best performing stocks are up on average 22.7%, while the 40 worst ones are down 46.2%.

One of the good news is that government bond yields, particularly USD ones, are now back to levels that are starting to resume their role of risk dampeners in a diversified portfolio.

Earnings, inflation outlook, central banks and the return of Russian gas flows post maintenance, (even partial), are probably the 4 pieces of news that will determine the direction of the next leg in financial markets over the next couple of weeks.

ARE WE ALREADY IN A RECESSION?

In the US, for a large portion of the population it certainly feels so. As we mentioned in the past, inflation number as represented by the CPI, is meaningful only for economists and central banks. For a large chunk of the US population, if we just consider utility bills, food bought at the supermarket and gasoline, (so called high frequency items), the inflation is probably running around 13-15%, namely:

- Utility prices for private consumers are up 16.5% YoY
- Food is up 12.2% YoY
- Gasoline is up 54.9% YoY

In fact, something that we long suspected to be the case, the split in spending data is now showing up in recent surveys: according to Morning Consult, adults earning less than 50'000 USD a year are now spending 8% less YoY, while those making more than that increased spending by 25%. There is not an exact number of how many households make less than 50'000 USD a year, the most conservative number is around 52%, but when you know that the median income is 30'000 USD, it could also be a lot higher. In short, a large chunk of the population is already feeling the pinch, and therefore it is a political issue now, independently of whether the nominal rate or the core one is past the peak or peaking. And, as pointed out in previous comments, there is little that central banks can do to combat the inflation of those consumption items.

There are also several other macro indicators that indicate that the economy and the labour market are slowing down, despite the strong nonfarm payroll gain reported for June. Job openings and quits are declining, even in a difficult sector such as hospitality, the ISM employment indices in both manufacturing and services are now contractionary, the Atlanta Fed GDP spot index has turned negative, jobless claims are rising again, and many companies are announcing hiring freezes or slowing hirings.

The big question is whether, after the splurging in categories such as travel this summer, the post-pandemic consumer 3.0 will look similar in its spending patterns to the 2019 one? or will it have a higher savings rate? This will be critical for the US economy, but also the terminal rate of the Fed, which is now expected to peak ‘only’ at 3.4% in December 2022. As we pointed out in the past, the market is already doing some of the job for the central bank: with the spiking of the mortgage rates, which have now retreated below 6%, the housing sector is already showing a substantial slowdown, and ‘shelter’ represents about 1/3 of the CPI index.

In Europe of course, the economic and fiscal costs of the war are increasing rapidly. Europe’s GDP was supposed to grow 5% this year, and we are probably at or close to a standstill right now. Russia is obviously twisting the continent’s arm, as it reduced gas exports via the Nord Stream pipeline by 60% in mid-June, sending shockwaves to the financial markets. The reason, supposedly, one of the six turbines it needs to be able to exploit the pipeline at 100% capacity, was stuck in Canada for maintenance: Canada has now allowed the return of that turbine. So, Europe, with bated breath, will wait for the 22nd of July, the date set for the end of the yearly pipeline maintenance, to see how much gas, if any, will return to flow. Markets will probably welcome even pre-maintenance levels of 40% gas flows. Should there be no gas, Europe will immediately fall into recession, led by Germany and Italy, with obvious consequences for the financial markets, but also the ECB, which holds its meeting the day before.

ECB

We talked last month about how the ECB will closely watch any peripheral spread widening, particularly the German-Italian one, and pointed to 250-300 bps on 10-year yields the level where we could expect interventions by the ECB. Well, once the spread hit 242, the ECB called an extraordinary meeting. There is a new name for the spread widening: the ECB talks about avoiding ‘fragmentation’. The new tool could be announced at next July 21st meeting, and it could be called ‘Transmission Protection Mechanism’. It is far from a done deal though: the ECB is showing cracks in its unity, with the Bundesbank president already, and openly, trying to put limits to the tool. Specifically, he wants to ensure that the ECB doesn’t engage in monetary financing of individual states, as per his own words.

STRATEGY

As mentioned last month, we were looking at doing some changes in credit, and we decided to sell the inflation linked bond fund, as the collapse in breakevens means there is not anymore, the inflation cushion. After the market drifted lower, we also decided not to rebalance the portfolio, as a result we are now neutral equities.

POSITIONING

Overall Exposure

We are Neutral 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 ex Japan

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 US Municipal Infrastructure Bonds, Long Hybrids & Long Asian Bonds.

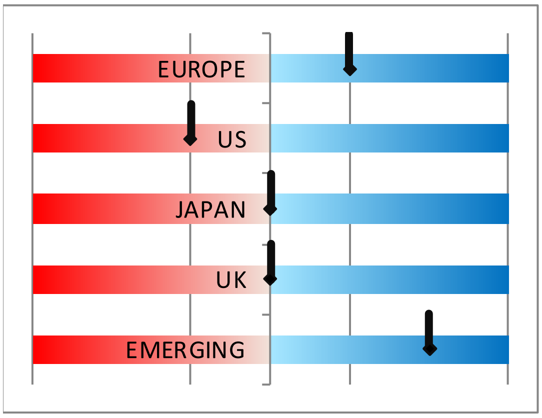
Currencies: Portfolios are fully USD hedged

Commodities: Overweight

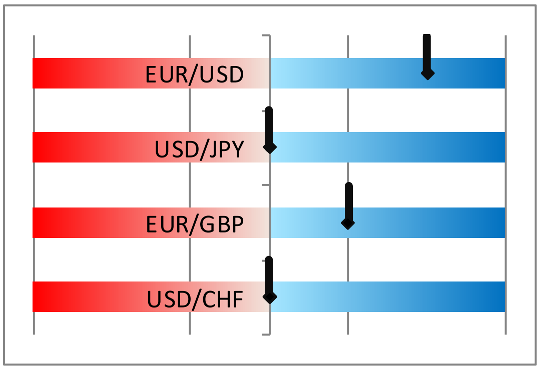
Long Gold

Conviction Thermometer

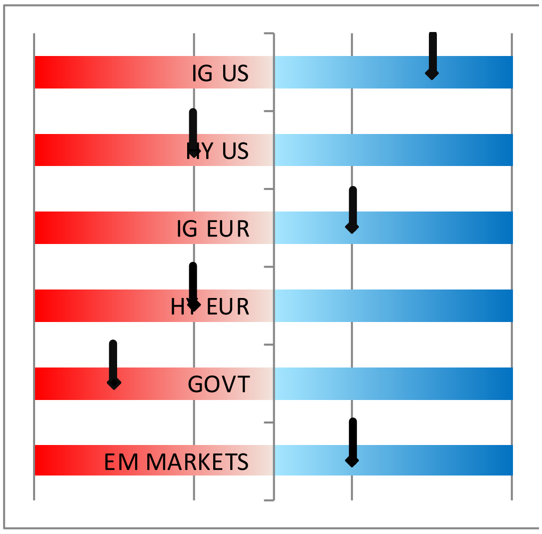
Equities



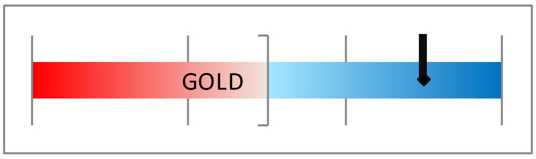
Currencies



Bonds



Commodities



*Negative view / Positive view

Market Overview as of 30th June 2022

EQUITIES (local ccies)	Level	5D	MTD	YTD	2021
MSCI WORLD	2 546,19	-0,07%	-8,63%	-20,28%	22,38%
GERMANY DAX	12 783,77	-1,00%	-11,15%	-19,52%	15,79%
FRANCE CAC40	5 922,86	0,67%	-8,19%	-15,00%	31,88%
UK FTSE100	7 169,28	2,13%	-5,53%	-1,01%	18,40%
BELGIUM BEL20	3 682,07	1,01%	-5,01%	-12,51%	21,86%
SWISS MARKET INDEX	10 741,21	2,75%	-7,49%	-14,31%	23,73%
EUROPE EURO STOXX 50	3 454,86	0,54%	-8,74%	-17,39%	24,10%
US S&P500	3 785,38	-0,24%	-8,26%	-19,97%	28,68%
NASDAQ 100	11 503,72	-1,65%	-8,94%	-29,22%	27,51%
RUSSELL 2000	1 707,99	-0,15%	-8,23%	-23,45%	14,78%
JAPAN TOPIX	1 870,82	1,17%	-2,05%	-4,80%	12,77%
MSCI EMERGING	1 000,67	0,78%	-6,63%	-17,57%	-2,32%
BRAZIL IBOVESPA	98 542	0,47%	-11,50%	-5,99%	-11,93%
MEXICO MEXBOL	47 524,45	1,87%	-8,12%	-9,27%	24,07%
RUSSIA MICEX	2 204,85	-8,30%	-5,83%	-40,98%	21,88%
CHINA CSI 300	4 563,77	3,47%	10,43%	-8,30%	-3,51%
INDIA SENSEX	53 018,94	1,45%	-4,47%	-8,26%	23,23%
KOREA KOSPI	2 663,34	0,80%	-13,14%	-21,52%	5,56%
HONG KONG HANG SENG	21 859,79	3,13%	3,00%	-4,82%	-11,84%
AUSTRALIA ALL-SHARE	3 940,90	1,73%	-5,98%	-4,60%	18,29%
SAUDI ARABIA TADAWUL	11 523,25	1,91%	-10,71%	3,26%	33,19%

US: Sectors	Level	5D	MTD	YTD	2021
COMMUNICATION SVCS	186,03	-1,45%	-7,69%	-30,16%	21,57%
CONSUMER DISCRETIONARY	1 077,78	-3,03%	-10,80%	-32,82%	24,43%
CONSUMER STAPLES	750,05	0,84%	-2,50%	-5,58%	18,63%
ENERGY	546,24	1,39%	-16,91%	31,64%	54,35%
FINANCIALS	523,35	0,88%	-10,90%	-18,73%	34,87%
HEALTH CARE	1 494,31	0,83%	-2,66%	-8,33%	26,13%
INDUSTRIALS	738,41	1,76%	-7,40%	-16,79%	21,10%
INFORMATION TECHNOLOGY	2 222,96	-1,30%	-9,32%	-26,91%	34,52%
MATERIALS	463,16	0,12%	-13,84%	-17,90%	27,28%
REAL ESTATE	255,77	-0,21%	-6,90%	-20,11%	46,14%
UTILITIES	356,45	3,38%	-4,98%	-0,56%	17,67%

EUROPE: Sectors	Level	5D	MTD	YTD	2021
BASIC MATERIALS	2 708,65	-0,11%	-16,17%	-10,79%	22,50%
CONSUMER GOODS	4 217,39	2,37%	-2,81%	-7,28%	25,09%
CONSUMER SERVICES	1 170,22	0,78%	-7,13%	-22,55%	22,44%
FINANCIALS	689,17	0,50%	-8,29%	-11,22%	29,12%
HEALTH CARE	3 366,46	3,28%	-2,32%	-2,46%	27,58%
INDUSTRIALS	2 683,35	1,27%	-11,22%	-26,73%	31,32%
OIL & GAS	1 302,64	3,17%	-10,96%	15,56%	26,63%
TECHNOLOGY	1 192,06	0,72%	-9,31%	-30,86%	38,92%
TELECOMS	610,43	0,63%	-2,80%	3,34%	16,24%
UTILITIES	1 826,04	-1,12%	-10,20%	-11,43%	7,75%

WORLD: Styles	Level	5D	MTD	YTD	2021
QUALITY	3 085,49	0,00%	-7,83%	-23,96%	25,66%
MOMENTUM	3 020,74	1,36%	-7,50%	-22,80%	14,64%
VALUE	10 388,37	0,50%	-8,84%	-12,16%	21,94%
GROWTH	6 901,31	-0,70%	-8,47%	-28,80%	21,18%
VOLATILITY	7 477,19	0,21%	-7,13%	-17,67%	21,77%
SIZE	6 860,30	0,12%	-9,13%	-19,37%	18,02%
DIVIDEND	4 170,70	0,52%	-7,51%	-13,41%	19,40%

FIXED INCOME	Level	5D	MTD	YTD	2021
Pan-Euro 3-5 yrs IG	200,86	0,18%	-1,60%	-7,61%	-0,51%
Euro Aggregate	235,06	0,13%	-2,34%	-12,13%	-2,85%
Pan-Euro HY Hedged Eur	358,13	-2,11%	-6,71%	-14,17%	3,46%
Global Inflation hedged EUR	249,92	-1,11%	-3,65%	-13,09%	4,66%
US Corp High Yield	2 264,90	-1,24%	-6,73%	-14,19%	5,28%
EM USD Aggregate TR	1 260,87	-0,92%	-4,57%	-17,14%	-1,65%
EM Aggregate TR Local Ccy	136,08	-0,12%	-3,00%	-8,97%	-1,59%
EUR Banks CoCo Tier 1	134,06	-1,36%	-6,71%	-14,44%	4,65%
EU GOVT HEDGED EUR	216,93	0,17%	-1,94%	-13,56%	-4,21%
Global Aggregate	2 554,99	-0,07%	-3,21%	-13,91%	-4,71%

COMMODITIES	Level	5D	MTD	YTD	2021
GOLD	1 807,27	-0,85%	-1,64%	-1,20%	-3,64%
COPPER	371,45	-0,66%	-13,54%	-16,78%	26,84%
OIL WTI	105,76	1,43%	-7,77%	40,62%	55,01%
OIL BRENT	114,81	4,33%	-6,54%	47,61%	50,15%

CURRENCIES	Rate	5D	MTD	YTD	2021
EURUSD	1,0484	-0,37%	-2,33%	-7,79%	-6,93%
GBPUSD	1,2178	-0,67%	-3,36%	-10,01%	-1,01%
USDJPY	135,72	0,57%	5,48%	17,94%	11,46%
USDCHF	0,9551	-0,60%	-0,46%	4,62%	3,13%
AUDUSD	0,6903	0,09%	-3,82%	-4,96%	-5,60%
USDRUB	54,17	-0,46%	3,63%	-27,43%	-11,08%
USDCNY	6,6993	0,35%	-0,13%	-0,13%	5,28%
USDKRW	1 106,85	0,20%	0,07%	0,07%	4,22%
USDINR	78,97	0,84%	1,72%	7,54%	9,15%
USDTRY	16,6985	-3,77%	1,80%	25,51%	78,81%
BITCOIN	18 731	-9,93%	-41,07%	-59,57%	59,79%

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