Monthly review

Macro

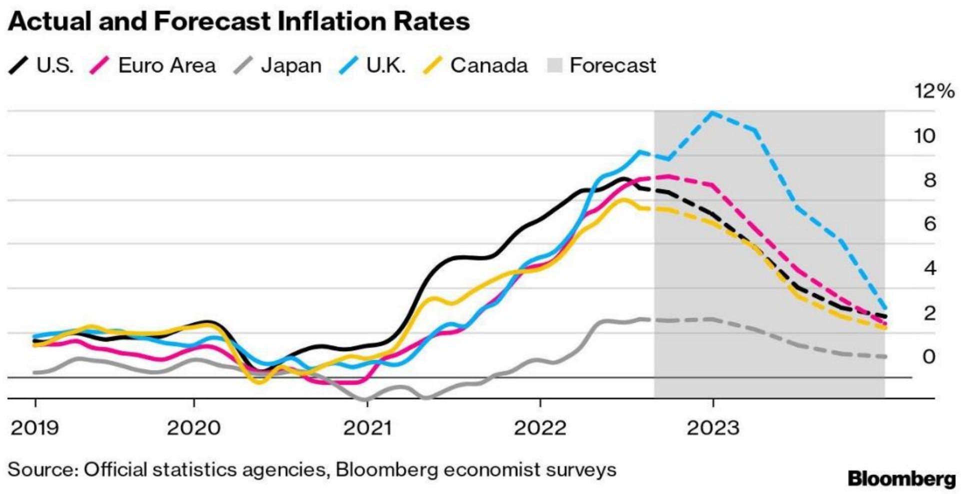
"Inflation is when you pay 40 $ for the 30 $ haircut you got for 20 $ when you had hair..." Sam Ewing.

The roller coaster ride continues in the markets. Between fear of missing the bottom, short-sale buybacks, a scheduled drop in inflation and hopes for central bank help (which we don't think will come for a long time...).

The markets had decided to wear their rose-colored glasses this summer, with the SP500 gaining 19% between mid-June and mid-August, until the US Federal Reserve came out of its summer torpor. It reminds us that its first mission is price stability (thus the fight against inflation), especially since the latest economic data is not going towards their objective. Indeed, consumer confidence has risen to a high of 103.2 against 98 expected, job offers have unexpectedly increased to 11.239 million in July (against 10.375 million expected). So the Federal Reserve still has a lot of work to do if it wants to rebalance labor supply and demand. This has pushed the 2-year US yield to 3.44% (not seen since 2007).

On this side of the Atlantic Ocean, we still have a war in Ukraine, an energy crisis looming this winter that is starting to take its toll on the electricity bills of many small businesses and SMEs unable to pass on these costs to their customers. And also a central bank that has no choice but to raise its rates to stop the machine.

The inflation peak may be behind us, but the expectations of a decline below may be too optimistic?



Outlook

We have not put on our rose-colored glasses this summer and we think that the markets are still too optimistic. We are worried about the European situation as we enter winter and are vigilant about the China-Taiwan-US tensions. We are waiting for China (which knows that its economic policy and management of the covid does not work) to find a credible and effective plan.
The return to work will undoubtedly be difficult for the markets and we could take advantage of this to finally have attractive prices on large quality stocks.

Equity markets

The CAC 40 lost 5.02% in August, erasing part of July's gains (+8.87%). The SMI fell by 2.81% in August. In the US, the S&P500 hit the 200-day moving average at 4,325, triggering a sell signal coupled with the bad macroeconomic news. Nasdaq and S&P500 fell by 5% during the month. The context of rising rates allowed financial stocks to resist better over the month, the sector remains stable over the month.

Stoxx600 2Y

Nasdaq 100 2Y

Winners & Losers

Here is the list of winners and losers in 2022 (expressed in USD):

2022 Cross-Asset Winners & Losers

Table 5: 2022 YTD ranked returns
Year-to-date ranked crossasset returns

Ranked Returns, USD-terms (2022)

Assets		Equities		Sectors		Fixed Income		FX vs. USD		Commodities	
1 Oil	19.1%	1 Turkey Equities	22.3%	1 ACWI Energy	21.3%	1 3-Month Treasury Bills	0.4%	1 Brazilian real	7.6%	1 Natural Gas	144.7%
2 US Dollar	13.6%	2 Brazil Equities	15.6%	2 ACWI Utilities	-4.1%	2 2-year Treasury	-3.5%	2 Mexican peso	1.9%	2 Brent Crude Oil	24.1%
3 Gold	-6.1%	3 Portugal Equities	-2.2%	3 ACWI BioTechnology	-8.5%	3 TIPS	-7.7%	3 Singapore dollar	-3.4%	3 WTI Crude Oil	19.1%
4 Pacific Rim xJapan	-9.0%	4 India Equities	-3.3%	4 ACWI Consumer Staples	-10.3%	4 US Mortgage Master	-9.0%	4 Canadian dollar	-3.8%	4 Iron Ore	12.3%
5 UK Equities	-10.8%	5 Australia Equities	-7.3%	5 ACWI Healthcare	-14.2%	5 Treasury Master	-10.1%	5 Indonesian rupiah	-4.0%	5 Gold	-6.1%
6 Industrial Metals	-13.6%	6 Hong Kong Equities	-9.7%	6 ACWI Financials	-15.8%	6 US Corp HY	-11.0%	6 Australian dollar	-5.8%	6 Platinum	-14.2%
7 High Yield Bonds	-14.7%	7 S. Africa Equities	-10.5%	7 ACWI Banks	-15.9%	7 CCC HY	-12.8%	7 Indian rupee	-6.4%	7 Copper	-19.5%
8 Investment Grade Bonds	-16.4%	8 UK Equities	-10.8%	8 ACWI Industrials	-18.4%	8 US Corp IG	-13.7%	8 Swiss franc	-6.6%	8 Silver	-23.9%
9 Government Bonds	-17.0%	9 Canada Equities	-10.9%	9 ACWI Materials	-19.1%	9 EM Corporate	-14.3%	9 South African rand	-6.9%		
10 US Equities	-17.1%	10 Mexico Equities	-12.3%	10 ACWI Real Estate	-19.9%	10 BBB IG	-14.6%	10 Chinese renminbi	-7.8%		
11 EM Equities	-17.2%	11 Greece Equities	-14.1%	11 ACWI Cons. Discretionary	-24.3%	11 Japan Govt	-19.0%	11 Taiwanese dollar	-9.1%		
12 Japan Equities	-17.7%	12 Singapore Equities	-14.8%	12 ACWI Info Tech	-26.1%	12 EM Sovereign	-20.1%	12 NZ dollar	-10.5%		
13 EM Sovereign Bonds	-20.1%	13 Spain Equities	-16.9%	13 ACWI Telecoms	-28.7%	13 Non-US IG Government	-21.9%	13 Korean won	-11.2%		
14 Europe Equities	-21.6%	14 US Equities	-17.1%			14 German Govt	-22.1%	14 Norwegian krone	-11.2%		
		15 Japan Equities	-17.7%			15 European HY	-22.1%	15 Euro	-11.6%		
		16 China Equities	-19.4%			16 30-year Treasury	-24.7%	16 British pound	-14.1%		
		17 Switzerland Equities	-20.1%			17 UK Govt	-30.8%	17 Swedish krona	-15.1%		
		18 France Equities	-21.9%					18 Japanese yen	-17.2%		
		19 Taiwan Equities	-23.3%					19 Turkish lira	-26.9%		
		20 Korea Equities	-26.7%								
		21 Italy Equities	-27.0%								
		22 Germany Equities	-31.1%								

Source: BofA Global Investment Strategy, Bloomberg, as of 31 August 2022

Foreign exchange market

The energy storm that hit Europe and the Fed's firmness pushed the euro below parity with the dollar. The single currency then climbed back to around USD 1 for the end of the month. Finally, the Dollar Index, which compares the greenback to six benchmark currencies, lost some ground from last weekend.

EUR USD YTD

The Swiss franc continued to strengthen during the month of August. Touching the symbolic 0.95 level, the euro recovered with this technical rebound. Concerns in Europe are benefiting the Swiss franc against the euro.

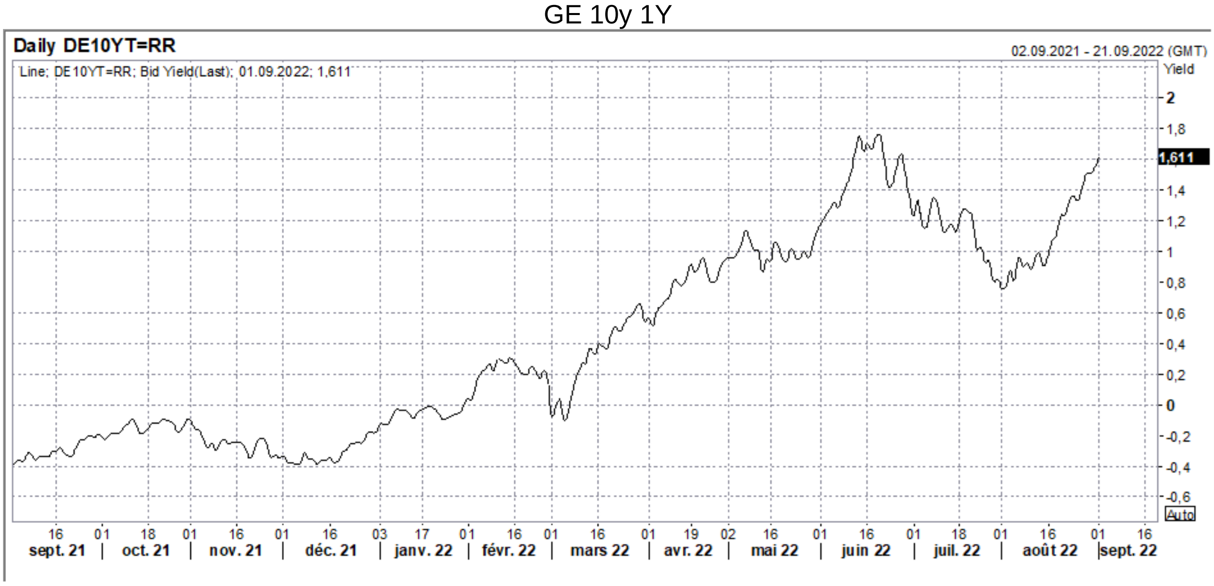
EUR CHF YTD

Bond market

Fed Chairman Jerome Powell made it clear at the Jackson Hole meeting last week that he would continue to raise interest rates until inflation is clearly under control. After Powell's speech and statements from other committee members, markets are expecting a faster tightening in the coming months, and then only a moderate rate cut. The Fed also acknowledged that the unemployment rate would have to rise to keep inflation in check.

US 10y 1Y

GE 10y 1Y



Commodities

In August gold followed the rate movements in the opposite direction. At the beginning of the month the US 10 year fell to 2.55% which allowed gold to rise to 1'800 USD. Since then, expectations on US rates have deteriorated and the rate has risen to 3.20%, which has caused gold to fall to 1'700 USD at the end of the month. We can see that the price of the yellow metal is very dependent on rate movements!

Gold 2Y

OPEC's statements paving the way for a potential production cut and the progress of talks on the Iranian nuclear deal have driven oil prices, first up and then down. It is clear that these two catalysts are being followed closely as they directly impact the direction of global supply. At the price level, Brent is trading near USD 99 per barrel while the US benchmark, WTI, is trading around USD 92. This discount of WTI compared to Brent facilitates US exports of crude oil but also of oil products. On the natural gas side, the pressure is not weakening in Europe, where the Dutch TTF has reached a new high of EUR 320/MWh.

Brent 2Y