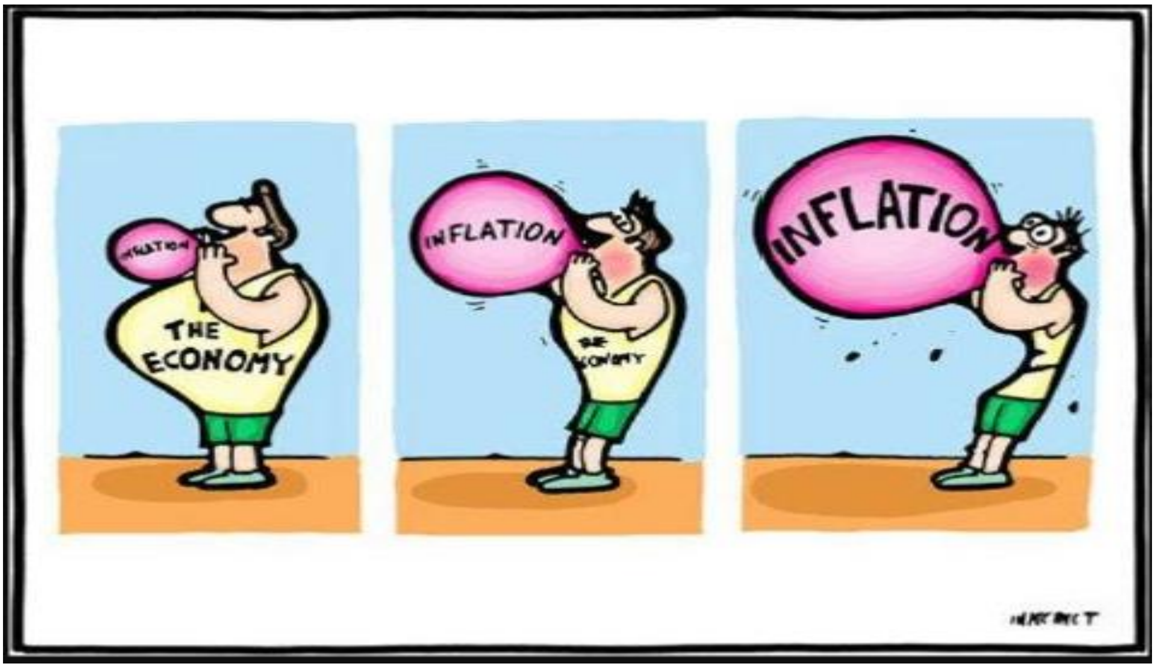
Market Review June 2022



After a beginning of the month plagued by an ambient negativism that has invaded investors since the beginning of the year, the equity markets rebounded strongly in the last sessions of May to finish almost unchanged overall. The IBEX (the flagship index of Spanish stocks) was driven upwards mainly by Inditex, which gained more than 11% over the month following the announcement of a partnership with the Australian biotech company Nanollose, which produces environmentally friendly fibers, and by Banco Santander, which climbed 7% after announcing a future change of CEO, and even had the luxury of climbing by 3% over the month. We can point to several reasons to explain this generalized surge in market. Firstly, a less worrying outlook for inflation in the US (more on this later). Secondly, a glimmer of hope that the end of the pandemic in China is in sight. Indeed, the authorities in Beijing and Shanghai have started to ease the very strict containment measures. As we have said many times before, when the Chinese industry is slowing down, it puts enormous pressure on supply chains, which ultimately affects all manufacturing sectors. As evidence, new car registrations in Europe collapsed by more than 20% in April compared to the same month last year. The European automakers' sub-index held up well in May (+1.25%) but is down more than 13% year-to-date. Also, in Europe, after a good month of April, the Food & Beverages sub-index dropped more than 6%, while the construction and real estate sectors were also among the worst performers for the month. A gradual reopening of China should therefore help to unclog the bottlenecks that we've been talking about since the summer of 2020. But let's not kid ourselves, these bottlenecks are not going to disappear in a few weeks. Huge investments will be necessary. We must even get used to the idea that there will be a "new normal after Covid". This will involve shorter supply chains and therefore probably higher production costs, which could be passed on to consumers in the form of higher final prices.

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Market trends at the end of May 2022

			Equities in Local Currencies					
End of May	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	-0,16%	0,01%	-0,36%	-0,99%	3,11%	-4,27%	0,14%	1,87%
Perf 3 Month	-6,28%	-5,53%	-3,44%	-2,85%	4,39%	-3,13%	-7,99%	-10,70%
Perf YTD	-13,64%	-13,30%	-11,85%	-9,57%	1,58%	-9,82%	-12,53%	-17,18%

		Commodities				Currencies vs EUR		
End of May	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	9,53%	12,35%	-3,14%	-3,30%	-1,77%	-0,84%	-1,55%	-0,34%
Perf 3 Month	19,80%	21,64%	-3,75%	-4,41%	4,52%	-6,59%	-1,85%	-0,10%
Perf YTD	52,47%	57,93%	0,45%	-2,81%	5,96%	-5,22%	-1,29%	0,76%

			Bloomberg Indices Bonds Total returns					
End of May	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	0,27%	0,64%	-1,51%	0,70%	-4,35%	0,54%	-0,09%	-0,02%
Perf 3 Month	-8,11%	-5,86%	-6,94%	-7,37%	-15,30%	-7,77%	-5,50%	-6,58%
Perf YTD	-11,06%	-8,92%	-10,02%	-9,84%	-19,12%	-12,48%	-10,10%	-13,17%

Source: Bloomberg 31/05/22.

As for interest rates, they have evolved in divergent ways on both sides of the Atlantic. In the US, they have tended to consolidate, while in Europe, following less accommodative comments by Mrs. Lagarde, the German 2-year yield has literally exploded, which has pulled the entire yield curve upwards while causing it to flatten. Indeed, the ECB President hinted that policy rates could reach the neutral level before the end of the year. After this announcement, the German 2-year yield doubled to 50 bps while the 10-year appreciated by 18 bps to close above the psychological 1% barrier for the first time since July 2014. Conversely, the tone was "softer" in Uncle Sam's country. Raphael Bostic, president of the Atlanta central bank, even surmised that peak inflation was behind us in the US and that by September, some of the uncertainties about the US economy could be resolved and labor market imbalances should ease. This was enough to give hope to investors who are waiting impatiently to see the light at the end of the tunnel... this allowed for an easing of the expected future rate hikes. Now, the consensus anticipates 8 hikes of 25 bps from the FED between now and the end of the year (including 2 times 50 bps in the next two meetings), which helps to stop the momentum that has been in place for several months with expectations of ever higher hikes.

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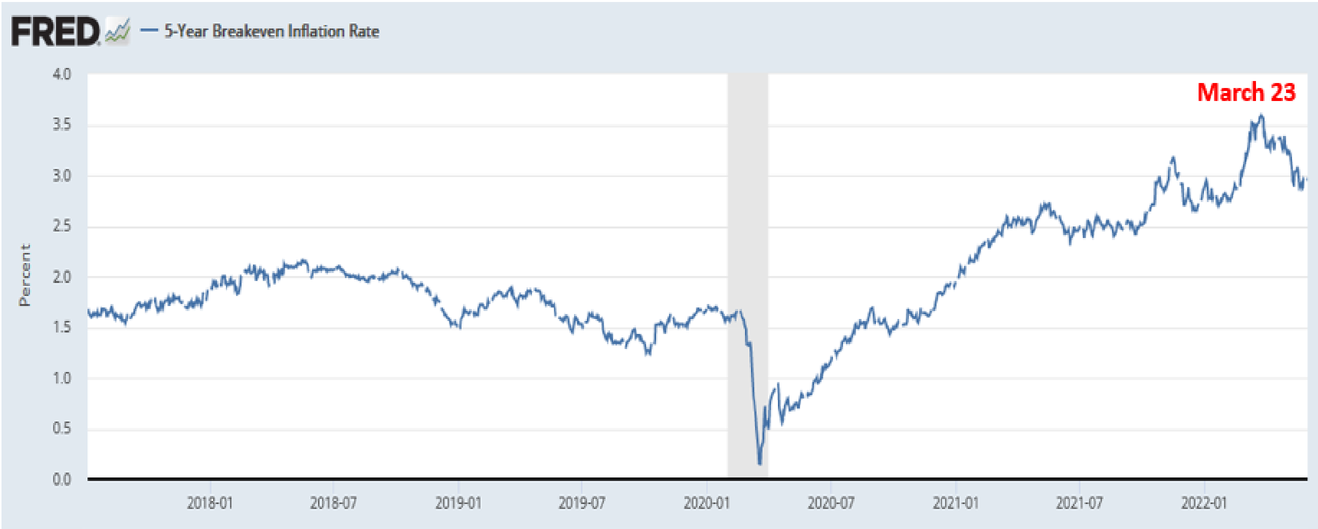
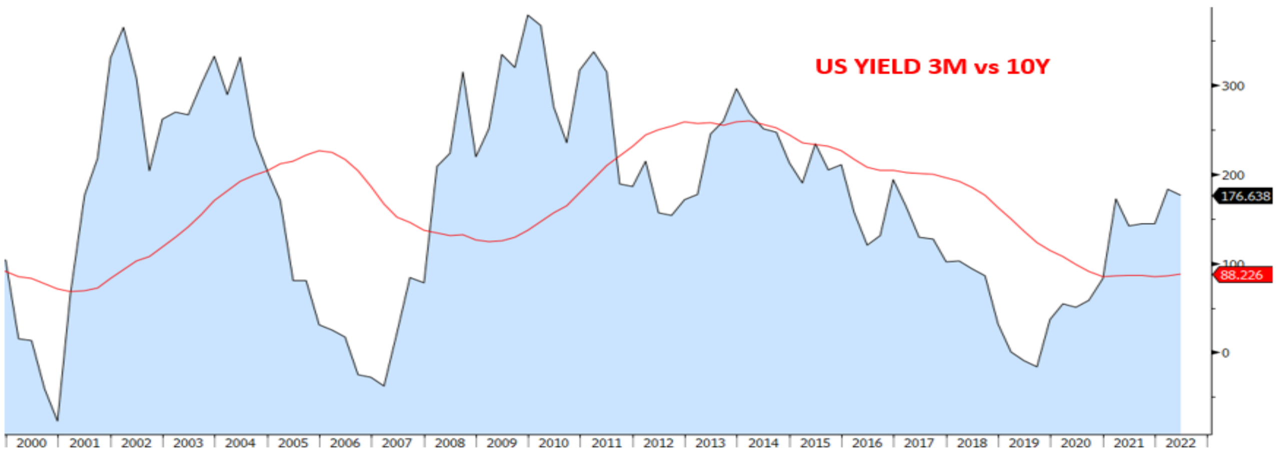


Source: Federal Reserve Economic Data

So central banks have finally decided to tackle the problem of inflation head on…but what will be the consequences of such policy? The first one that comes to mind is of course the recession. Will this be confirmed in the coming months? To talk about a recession, we need to see two consecutive quarters of negative growth. The US GDP contracted by 1.5% in the first quarter (mainly due to inventory effects), but expectations for the second quarter are, for the moment, still on the rise. Germany narrowly avoided a technical recession with growth of +0.2% in 1st quarter 2022 after suffering a contraction of 0.3% in 4th quarter 2021. In contrast, France experienced positive growth for the last quarter of last year, but negative growth for the period from January to March of this year. And what could we say about China, which is struggling to keep its real estate market from imploding and is deploying a maximum of measures to alleviate the negative effects of containment on the local economy. It is therefore not impossible that the world will face a generalized recession between 2023 and 2024. At this stage, there is no confirmation of this. But we are still closely monitoring some leading indicators such as the ratio below between the US 3-month yield versus the 10-year yield. When this ratio fell below zero in recent years, the U.S. and global economy slowed sharply in the months that followed.



Source : Bloomberg

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Shorter supply chains, deglobalization, relocalization, since the confinements of 2020, we hear these words on a daily basis... and it is certainly not about to stop! In recent weeks (mainly since the beginning of the Ukraine/Russia conflict), several producers of agricultural products have taken decisions that could be described as protectionist (selfish?) First, Indonesia decided to suspend palm oil exports, a suspension that was lifted a few days ago. Then India decided to stop all wheat exports and is considering limiting sugar exports. This will not ease the pressure on inflation, especially since, as we have already explained in this letter, the FAO food price index is at an all-time high. These measures are political decisions. They can be lifted as quickly as they were imposed (Indonesia is a good example), but this should not happen without a de-escalation of the conflict in Ukraine and a lifting of sanctions against Belarus, which is a major fertilizer exporter.

LIST OF COUNTRIES WITH BANS ON FOOD EXPORTS

COUNTRY	TYPE OF FOOD PRODUCT	BAN END DATE
ARGENTINA	Soybean oil, soybean meal,	Dec 31, 2023
ALGERIA	Pasta, wheat derivatives, vegetable oil, sugar	Dec 31, 2022
EGYPT	Vegetable oil, maize	June 12, 2022
	Wheat, flour, oils, lentils, pasta, beans	June 10, 2022
INDIA	Wheat	Dec 31, 2022
INDONESIA	Palm oil, palm kernel oil	Dec 31, 2022
IRAN	Potatoes, eggplant, tomatoes, onion	Dec 31, 2022
KAZAKHSTAN	Wheat, wheat flour	June 15, 2022
KOSOVO	Wheat, corn, flour, vegetable oil, salt, sugar,	Dec 31, 2022
TURKEY	Beef, mutton, goat meat, butter, cooking oils	Dec 31, 2022
UKRAINE	Wheat, oats, millet, sugar	Dec 31, 2022
RUSSIA	Sugar, sunflower seeds	Aug 31, 2022
	Wheat, meslin, rye, barley, maize	June 30, 2022
SERBIA	Wheat, corn, flour, oil	Dec 31, 2022
TUNISIA	Fruits, vegetables	Dec 31, 2022
KUWAIT	Chicken meat products, grains, vegetable oils	Dec 31, 2022

Source: International Food Policy Research Institute

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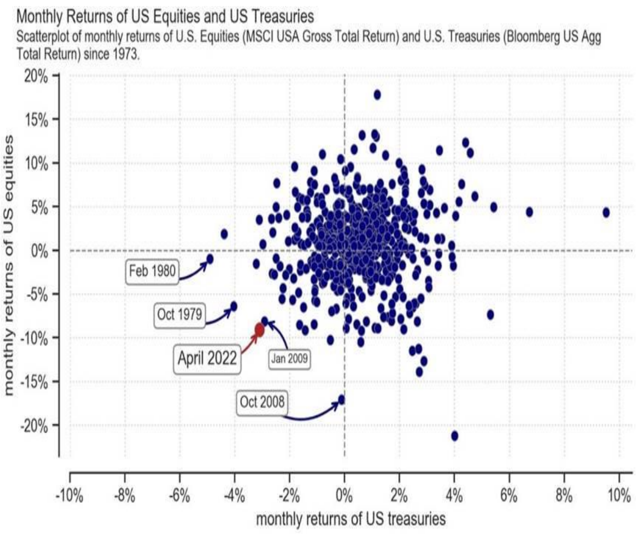
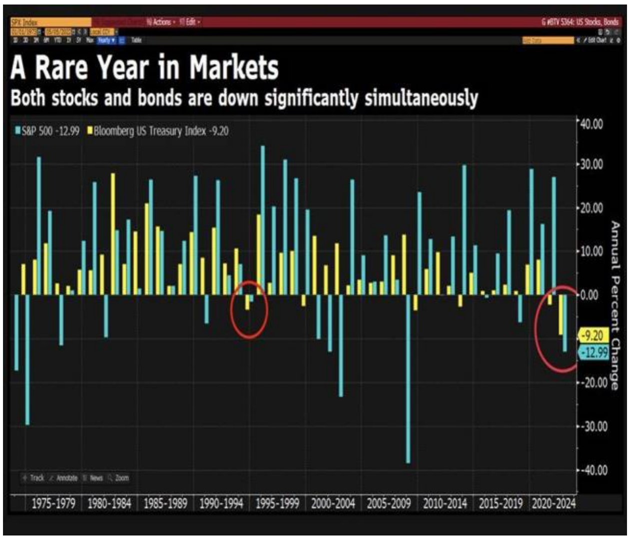
One more word on the U.S. dollar, which gave back some of its gains of the last few months in May. This is mainly due to inflationary expectations that are starting to level off. Historically, the strength of the dollar has tended to put pressure on emerging markets because it causes inflation in these regions due to energy purchases or various goods imported and paid for in dollars. Should inflation come under control by 2023 (as central banks believe...and hope), this could benefit emerging markets, which have severely underperformed U.S. equities over the past 10 years.

Even though we have not yet completed the first half of the year, we can already say that, just like 2020, 2022 will remain in the financial annals. When we decide to invest, the first thing we are taught is not to put all our eggs in one basket. In our jargon, this is called "diversification". From years of experience in asset management at Weisshorn, we know that in times of market stress or increased volatility, all assets tend to be more correlated. But what we are experiencing this year is particularly exceptional. In some segments, bonds have fallen even more than stocks since January. This makes portfolio construction very difficult and prompts us to constantly look for innovative and decorrelated investment solutions.





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It is clear that some companies that were valued at 50x sales before the correction will not return to their 2021 levels anytime soon. On the other hand, companies with strong balance sheets, that have cash and are well managed will come out on top. If the easing on inflation acceleration is confirmed, if China gradually recovers and if the risks of nuclear war do not return to the forefront (that's a lot of ifs...), the equity markets could recover some of the losses generated since the beginning of the year. Several indicators allow us to look at the glass as half full, at least until we see more clearly what is happening with "recession or not recession...?

We wish you a good transition to summer.

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