Market Review July 2022

Investors will remember for a long time the first half of 2022! There were no bank bankrptucy like in 2008, nor any terrorist attacks on American soil like in 2001, but the world organisation as we know it (knew it?) was put to the test. The world was already digesting, as best it could, the financial and psychological consequences of the various lockdowns... but geopolitics invited itself to the party. Mr Putin's decision to attack his Ukrainian neighbour marked 24 February 2022 as a milestone and a paradigm shift. On that day, war resurfaced in Europe, something that seemed unthinkable. Moreover, the devastating Energy strategy that most European states have been pursuing for more than 20 years was exposed... By phasing out nuclear power and with the desire to reach (overly ambitious?) carbon neutrality targets, Europe, led by Germany, found itself at the mercy of Russia, which supplies (was supplying) almost half of its gas consumption. Russian aggression will influence the political decisions of the world's top leaders for a long time. This has already been felt with the decision of German Chancellor Olaf Scholz to invest more than 100 billion Euros in weapons just 3 days after the invasion of Ukraine. Fears are also growing around Taiwan, which is under strong pressure from China. Is an armed intervention possible? With what we have experienced in recent months, no scenario can be excluded.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Market developments to the end of June 2022

	Equities in Local Currencies							
End of June	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	-8,77%	-8,39%	-8,82%	-8,44%	-8,50%	-7,49%	-7,15%	9,62%
Perf 3 Month	-16,60%	-16,45%	-11,47%	-11,07%	-4,10%	-11,68%	-12,36%	6,21%
Perf YTD	-21,21%	-20,58%	-19,62%	-17,20%	-7,06%	-16,58%	-18,78%	-9,22%

	Commodities				Currencies vs EUR			
End of June	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	-7,77%	-6,54%	-1,64%	-12,59%	2,38%	-2,92%	-1,05%	2,85%
Perf 3 Month	5,46%	6,39%	-6,72%	-20,40%	5,57%	-5,34%	-2,16%	2,01%
Perf YTD	40,62%	47,61%	-1,20%	-15,05%	8,48%	-7,99%	-2,32%	3,63%

	Bloomberg Indices Bonds Total returns							
End of June	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	-3,21%	-1,57%	-2,34%	-0,98%	-4,29%	-3,54%	-7,53%	-4,57%
Perf 3 Month	-8,26%	-4,69%	-7,10%	-4,41%	-14,91%	-8,58%	-11,85%	-8,72%
Perf YTD	-13,91%	-10,35%	-12,13%	-10,72%	-22,59%	-15,57%	-16,87%	-17,14%

Source: Bloomberg 30/06/22.

Markets that were already richly valued in 2021 (both equities and especially bonds) and boosted by the liquidity "offered" by Central Banks have unfortunately not been able to withstand these headwinds. Equity investors had become accustomed to the TINA (There Is No Alternative) phenomenon, which we discussed several times last year. This acronym meant that no asset class was more attractive than equities despite the fact that stock market indices were breaking new records every day. In June, we experienced a TINSE (There Is No Safe Even) phenomenon instead. Since the beginning of the year, the only sector that has risen is the Energy one, for the reasons we explained at length in the previous months, helped by the rise of oil (+40% since the beginning of the year). Even this sector did not resist in June. The latter, which has remained on a strong upward trend since the beginning of the year, experienced massive profit-taking, dropping more than 15% over the month due to growing fears of a potential imminent recession that would reduce demand for black gold. Like Crude Oil prices (-8% in June), most commodities stalled in the last month of the semester, such as Copper (-12.6%) and Wheat (-20.1%) to name but a few. And what about Gold! This famous yellow metal that our predecessors could buy to protect themselves against future inflation and all the other uncertainties... The latter, which has little correlation with other financial assets, has posted a very disappointing performance (-1.6% since the beginning of the year). Even digital assets have continued their descent into hell.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

	Krach des valeurs technologiques, mars 2000	Crise financière mondiale, octobre 2007	Aujourd'hui
Évaluations			
PER3 (12 derniers mois)	31	16	18
PER (12 prochains mois)	24	14	15
Primes de risque des actions US	0,3%	4,6%	5,6%
Courbe des rendements US (à 10 et 2 ans)	–0,5%	+0,5%	+0,3%
Sentiment			
AAII: ratio bull-bear	66%	42%	20%
Ratio put-call US	0,35	0,45	0,64
Flux de capitaux en % de la capitalisation boursière	2,9%	0,7%	–0,3%
Entreprises (bilans, liquidités)			
F&A (en % de la cap. boursière)	11,4%	7,2%	4,4%
Rendement des capitaux propres	12%	16%	13%
Bénéfices par action (en % au-dessus du dernier pic)	5%	202%	20%
Prime de risque des crédits à haut rendement	6%	6%	4,2%
Prime de risque des crédits investment grade	1,8%	1,6%	1,2%
Ratio de fonds propres des banques	9%	9%	12,6%

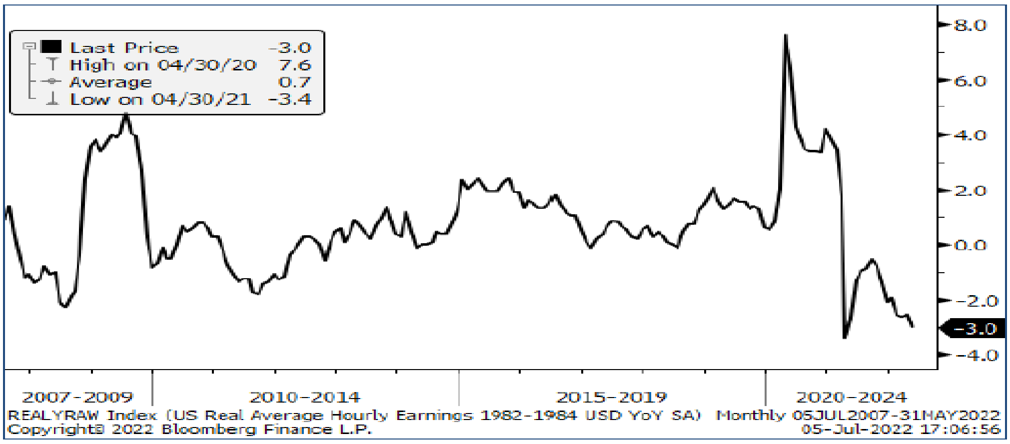
Sources: Bloomberg, CBOE, American Association of Individual Investors (AAII), Refinitiv, Credit Suisse

The collapse in commodities during June gives us an interesting signal. We have been talking about rising inflation (it was supposed to be temporary at first and now it is the primary concern of most Central Banks) for about a year. It started to show up in the summer of 2021, when Western countries started to phase out their lockdown measures and the first signs of supply chain problems were felt. By then, most commodities were already in a strong uptrend. The loss of purchasing power that we have seen over the past few months already seems to be having a negative impact on demand. Indeed, even if we can see that wages are increasing in some segments (especially low wages), these adjustments are below the level of inflation. They are not enough to keep real (inflation-adjusted) wages stable.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1

+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Real Wages



On the other hand, Central Banks are (finally?) showing determination to fight inflation. The FED announced this month a 75 basis points increase to 1.75% of its key rate (the biggest increase since 1994), the Bank of England (BoE) raised its rate to 1.25% after 4 consecutive 0.25%, the ECB confirmed that it would raise its rate by 25 basis points in July and even the SNB, which by habit waits to see the direction the ECB takes to avoid impacting the Swiss franc too strongly, cut Mrs Lagarde off by raising its rate by 50 basis points to -0.25% before the latter moved. The franc therefore logically appreciated and even crossed the psychological threshold of parity against the EUR. Long-term interest rates were initially positively influenced by Central Banks tightening, but fears of recession quickly took over. After touching 3.5%, the US 10-year returned to 3% at the end of the month, while the German 10-year flirted with 2% to finish at 1.50%. Another area of concern and a real headache for the ECB is the management of the yield spreads between Germany and other European countries. You probably remember that during the European debt crisis between 2010 and 2013, yields in peripheral countries soared due to fears that the Eurozone would implode under the weight of public debt of the south. The 10-year yield offered by Greece, which was in near-bankruptcy and was the first Eurozone country to undergo austerity measures in exchange for financial guarantees, was around 35%. French government bonds were more than 100 basis points higher than German bonds.

With monetary policy less accommodative, these yield spreads have started to diverge again since the beginning of the year. Last month, an Italian 10-year bond offered 2.4% more than a German one (as a reminder, this rate reached 5% at its peak in 2011). The ECB has decided to curb any desire to do so by announcing that it will put in place an instrument to combat an excessive spread between the countries of the zone, without however giving any details of this program. We should know more at the next meeting on July 21. This has at least allowed the yield spread between Italy and Germany to fall below 2%.

Only the Bank of Japan (BoJ) is stubbornly sticking to its ultra-accommodating monetary policy, which is weighing heavily on its currency (-18% against the US dollar since the beginning of the year). The Chinese Central Bank (PBOC) also has a more flexible policy than the average, but the latter is facing a crisis in its real estate market and huge lockdowns due to the government's zero-covid policy.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1

+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Global Central Bank Policy Rates						
Country	Rate	Central Bank Rate (Today)	CPI YoY	Real Central Bank Rate	Last Move	Last Move Date
Denmark	Deposit Rate	-0.60%	7.4%	-8.0%	Cut	Sep-21
Eurozone	Deposit Rate	-0.50%	8.1%	-8.6%	Cut	Sep-19
Switzerland	Target Rate	-0.25%	2.9%	-3.2%	Hike	Jun-22
Japan	Policy Rate Bal	-0.10%	2.5%	-2.6%	Cut	Jan-16
Sweden	Repo Rate	0.25%	7.3%	-7.1%	Hike	Apr-22
Thailand	Policy Rate	0.50%	7.1%	-6.6%	Cut	May-20
Australia	Cash Rate	0.85%	5.1%	-4.3%	Hike	Jun-22
Norway	Deposit Rate	1.25%	5.7%	-4.5%	Hike	Jun-22
UK	Bank Rate	1.25%	9.1%	-7.9%	Hike	Jun-22
Hong Kong	Base Rate	1.25%	1.2%	0.1%	Hike	May-22
Taiwan	Discount Rate	1.50%	3.4%	-1.9%	Hike	Jun-22
Canada	Overnight	1.50%	7.7%	-6.2%	Hike	Jun-22
US	Fed Funds	1.63%	8.6%	-7.0%	Hike	Jun-22
South Korea	Repo Rate	1.75%	5.4%	-3.7%	Hike	May-22
New Zealand	Cash Rate	2.00%	6.9%	-4.9%	Hike	May-22
Malaysia	Policy Rate	2.00%	2.3%	-0.3%	Hike	May-22
Saudi Arabia	Repo Rate	2.25%	2.2%	0.1%	Hike	Jun-22
Philippines	Key Policy Rate	2.50%	5.4%	-2.9%	Hike	Jun-22
Indonesia	Repo Rate	3.50%	3.6%	0.0%	Cut	Feb-21
China	Loan Prime Rate	3.70%	2.1%	1.6%	Cut	Jan-22
South Africa	Repo Rate	4.75%	6.5%	-1.8%	Hike	May-22
India	Repo Rate	4.90%	7.0%	-2.1%	Hike	Jun-22
Peru	Policy Rate	5.50%	8.8%	-3.3%	Hike	Jun-22
Poland	Repo Rate	6.00%	13.9%	-7.9%	Hike	Jun-22
Colombia	Repo Rate	6.00%	9.1%	-3.1%	Hike	Apr-22
Czech Republic	Repo Rate	7.00%	16.0%	-9.0%	Hike	Jun-22
Mexico	Overnight Rate	7.75%	7.7%	0.1%	Hike	Jun-22
Chile	Base Rate	9.00%	11.5%	-2.5%	Hike	Jun-22
Russia	Key Policy Rate	9.50%	17.1%	-7.6%	Cut	Jun-22
Brazil	Target Rate	13.25%	11.7%	1.5%	Hike	Jun-22
Turkey	Repo Rate	14.00%	73.5%	-59.5%	Cut	Dec-21
Argentina	Benchmark Rate	52.00%	60.7%	-8.7%	Hike	Jun-22
COMPOUND				@CharlieBilello		

This situation is disturbing. Usually, Central Banks withdraw liquidity when demand is strong and the economy is in danger of overheating. But this time, as explained above, the economy is already showing concrete signs of slowing, demand seems to be waning and Central Banks are maintaining monetary tightening. The FED's objective is to bring its key rates to 3.25% by the end of the year, which implies another 150 basis points of increase during the second semester. This situation confirms that Central Banks have been slow to react in the autumn of 2021 and are “behind the curve”. We find it hard to imagine that they will not adjust their policy quickly if they see that the damage to the real economy is getting worse.

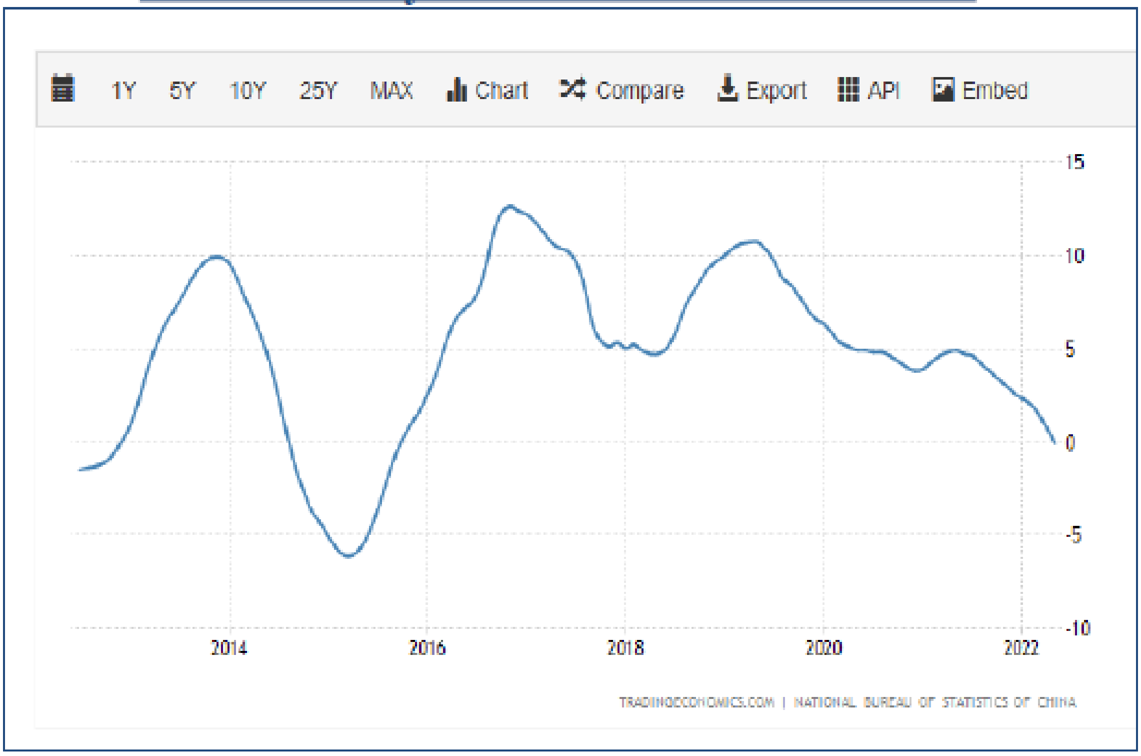
We will get some of the answers on the actual demand situation with the second quarter earnings period starting mid-July. Some companies have already commented in recent weeks, like chipmaker Micron Technology confirming that demand is waning, but many companies have not given any indication of how business has been going in recent months, nor of the outlook for the second half of the year. Based on the S&P500 index, the consensus expectation is for consolidated earnings growth of 4.3% and revenue growth of 10.2% compared to the same period last year. Interestingly, the vast majority of this growth comes from the Energy sector, which is benefiting from a strong base effect. If we remove the Energy sector from the consolidated expectations, the consensus is for a 3.5% contraction in earnings, reflecting the current economic slowdown. This reporting period, which will mainly span the months of July and August, will need to be carefully analysed.

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1

+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

As we reported last month, the gradual lifting of lockdowns in China is expected to help the country to boost its economy and reduce bottlenecks in supply chains around the world. Although the virus has not been completely eradicated, statistics show that new cases are decreasing day by day. On the other hand, the Chinese real estate market is still in a very tight situation. After the setbacks of Evergrande (one of the biggest Chinese property developers), it is now the turn of Shimao, also active in property development in China, to default on its debt. In addition, new housing prices are tending to contract, which will not improve the financial situation of the property manias. The PBOC is trying to work to prevent these bankruptcies from causing a domino effect on the entire sector, but the task is complicated. Still on the subject of defaults, it is worth noting that Russia was unable to pay interest at the end of the grace period on two foreign currency bonds. The Russian state has the financial capacity to pay the interest (the Ruble that is well above its pre-invasion level is the proof), but it cannot do so because of the sanctions imposed by Europe and the US. It is a first in the history of the bond market that an issuer defaults when it has the capacity to pay. Time will tell how this will be treated by the authorities...

China Newly Built House Prices YOY



Source: Statista

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Investors are therefore faced with inflation at its highest level in over 30 years (which seems to be peaking, but this has yet to be proven), an economy that is slowing down sharply (and could enter a recession soon) and a hostile geopolitical environment. It is therefore obvious to say that visibility is not very high in the stock markets at the moment. But at our level as portfolio managers, the most important thing is to keep a cool head, to step back from the mass of information (and fake news) that we can read on a daily basis and to reason pragmatically. Most of Equity indices have already lost between 20 and 30%. Investors have integrated the fact that companies will face pressure on their margins in the coming quarters, whether it is due to commodity price rises and supply chain disruptions for some or wages pressures for others. Long-term yields have discounted the changes in monetary policy. We are not in a position to suggest that the market is bottoming, but fundamentals remain healthy, corporate and bank balance sheets are strong and the degree of innovation is very high.

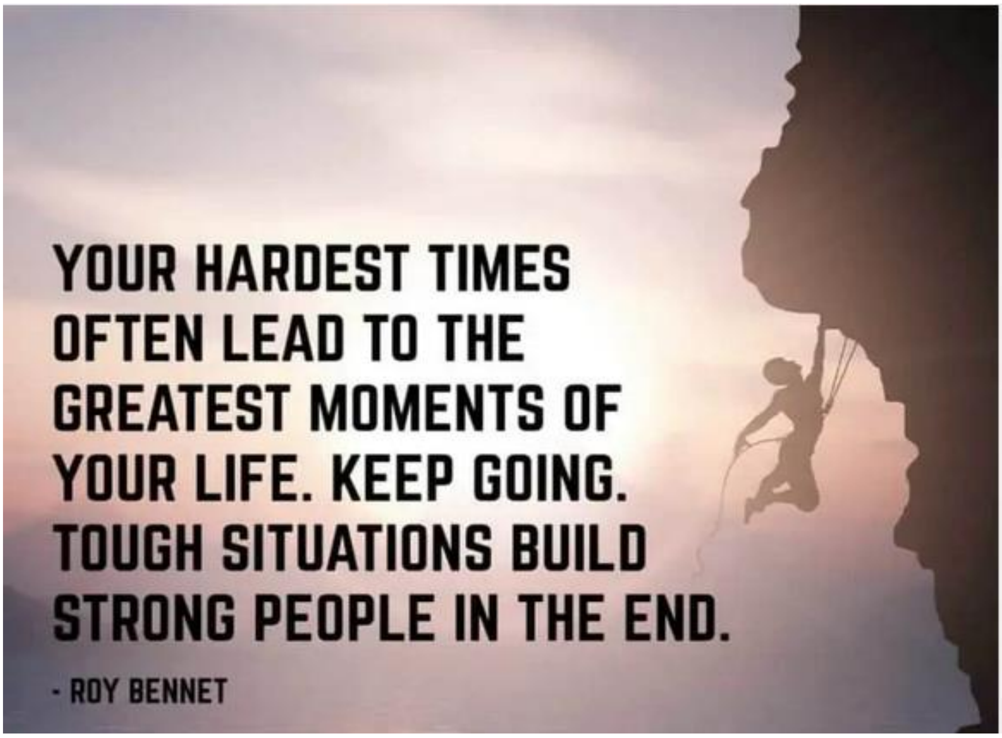
Recession	Duration	GDP	Plus 1 Year	Plus 3	Plus 5
Feb 1945 - Oct 1945	8 Months	-12.70%	-7.30%	15.29%	57.82%
Nov 1948 - Oct 1949	11 Months	-1.70%	31.50%	88.00%	171.30%
Jul 1953 - May 1954	10 Months	-2.60%	35.92%	83.74%	502.67%
Aug 1957 - Apr 1958	8 Months	-3.70%	37.30%	66.30%	89.70%
Apr 1960 - Feb 1961	10 Months	-1.60%	13.61%	35.06%	68.41%
Dec 1969 - Nov 1970	11 Months	-0.60%	11.20%	20.60%	25.20%
Nov 1973 - Mar 1975	1 Year, 4 Months	-3.20%	14.37%	21.89%	55.16%
Jan 1980 - Jul 1980	6 Months	-2.20%	12.90%	55.90%	100.90%
Jul 1981 - Nov 1982	1 Year, 4 Months	-2.70%	25.40%	67.24%	103.23%
Jul 1990 - Mar 1991	8 Months	-1.40%	11.00%	29.80%	98.20%
Mar 2001 - Nov 2001	8 Months	-0.30%	-16.51%	8.44%	34.33%
Dec 2007 - Jun 2009	1 Year, 6 Months	-5.10%	14.40%	57.70%	137.00%
AVERAGES	**11 Months**	**-2.40%**	**15.33%**	**45.84%**	**120.33%**

Source: Mirabaud

Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1

+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com

Historically, stock markets have anticipated economic cycles 6 to 9 months in advance. The months and years following the onset of a recession tend to be positive, as investors begin to anticipate better days and growth expectations. Markets are likely to remain volatile for some time, but even in previous crises and bear markets, there has always been a light at the end of the tunnel.
Nevertheless, we wish you a good summer holiday and try to take a step back.



Weisshorn Asset Management SA - 7, rue des Alpes, Case Postale 1800. CH - 1211 Geneva 1
+41 22 316 03 30 + 41 22 310 31 18 info@weisshorn-am.com www.weisshorn-am.com