



CIO OFFICE MORNING MARKET WRAP – Monday 4th of July, 2022.

Thursday concluded an ugly first half of the year for financial markets. H1-2022 has been a sea of red with returns between -15% and -20% for all segments of both fixed income and equity. Inflation and ballistic tightening directly impact bond prices and equity multiples, while growth scare question the trajectory of earnings. Damage was limited for hedge funds, down -5% in H1, and for gold, losing -1.2%. Cash was the only asset providing positive return, although a meager +0.1%.

The second half of the year started Friday on a better tone but without enthusiasm. Interest rates fell sharply after the US ISM Manufacturing index came out at 53 for June, materially below the median forecast of 54.5 and a sharp drop from May's 56.1. This level was consistent with those of the UK and the Eurozone, around 52 and also lower month-on-month. The 10-year Treasury yield decreased -13 basis points to 2.88%, and it was -16 basis points for the 5-year which also closed at 2.88%. It was a relief for equity multiples, and US shares gained +1.1% on average, in sharp contrast with the earlier drop in Asia, while Europe was flat. The price of Brent crude oil moved down -2.8% to \$111.6 and the dollar stopped climbing.

There was other interesting data being released on Friday. First, China's reopening was confirmed by a robust Caixin manufacturing PMI at 51.7, beating expectations and marking a clean return in expansion territory. Second, inflation remained contained in Japan but drifted higher in Europe. At +2.3% year-on-year, the former is below expectations while the first estimate of the latter, at 8.6%, is higher. Finally, construction spending in the US unexpectedly contracted in June. Bottom-line, the current state of the economy is as follows: the West is materially slowing but inflation is sticky, while Japan manages to continue business as usual, and China is once again out of sync with a vibrant reopening and so far no inflation issue. Recession risk is in all conversations, all investors' surveys express a record level of pessimism and all the usual suspects of doom and gloom are as vocal as ever – it's obviously their moment, which doesn't happen so often. As always, this sounds like good news for contrarian investors, but as long as we don't see convincing signs of inflation abating, volatility should remain the name of the game. We will hold our monthly tactical asset allocation committee next Tuesday to refresh the hierarchy of risks and rewards in this versatile context.

As we write this morning, Friday's risk appetite in the US didn't cross the pacific. Stocks are mostly down in Asia, with the exception of Japan up+0.6%. Hong-Kong is 1% lower after another real estate developed, Shimao, missed a payment on a bond, and both Korea and China's onshore markets are modestly down. Brent crude oil slips lower, approaching \$111, and major cryptocurrencies are failing by a couple of percentage points. There is no US Treasury trading today because of National Day.

US markets will thus be closed for holiday. The week ahead, as always with a new month, will see an avalanche of economic data. All PMI for major regions, including services, factory orders, minutes of the last FOMC and of course the monthly US employment report on Friday. It's important, because a significant part of the US inflation derives from the tightness of the job market, and unemployment is also an explicit part of the Fed's mandate. Meanwhile today we will have a look at CPI in Switzerland and Turkey, as well as at PPI and consumer confidence for the Euro-Area.

Stay safe.

Chief Investment Office
Wealth Management,
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