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Global

Financial markets spent the better part of the month trading in a tight range, both stocks and bonds, waiting for the outcome of:

- Companies' earnings
- The European Central Bank meeting on the 21st
- The end of the annual maintenance of Nord Stream 1 pipeline, and the reestablishment of gas flows
- The US Federal Reserve meeting
- The US 2nd quarter GDP
- The US July job and inflation report

The result has been soaring equity markets, led by cyclicals, long duration stocks and non-profitable ones, credit spreads tightening, (the European crossover moved from 620 bps to 470 bps), lower commodities, a violent curve inversion in the United States and a weaker dollar. We are also back in an environment where bad macro data is now interpreted as good news for financial markets.

ECB

The ECB delivered its 50-bps rate hike, along with the announcement of its Transmission Protection Mechanism program, intended to contain government credit spreads. Similarly, as with the Outright Monetary Transaction program of a few years ago, we do not know what and where will be the trigger to deploy it, and, as with the OMT the TPS, will likely never be used the simple threat of using it being enough to contain the spreads.

Nord stream 1

Moscow insisted for days that gas flows would restart on the 22nd of July, but after Ukraine's invasion, nobody really trusts Russia anymore. Gas flows towards Europe eventually restarted, at 40% capacity, similar to pre-maintenance, before being cut to 20%: supposedly two other turbines need maintenance. While it is a trickle of what it should be, Germany is still able to replenish its storage to 74% capacity, a level actually higher than in 2021. European markets were relieved that at least 'something' is arriving.

The US Federal Reserve Meeting and the 'Powell Pivot'

This was probably the most important event of the month, along with the July inflation report. Indeed, the bank did hike rates by 75 bps, bringing them to 2.5%. However, there was a communication change: the FOMC will make the next interest steps dependent on macro data. At the current rate, the central bank estimates that the economy is neither stimulated nor slowed down. And macro data has been on the soft side: US consumer confidence fell to the lowest since February 2021, GDP was weaker than expected, (more below), and leading indicators, such as the PMI manufacturing and services, continue to deteriorate. As a result, the market has started to imply reduction in rates in spring 2023, after a peak. We do not think this is another 'chairman Powell interest rates pivot', even with both the inflation rate and the PPI likely to have peaked, (see below). It does exclude dramatic moves of rate increases by 1 percent, which the market was fearing just days ago. It is also bolstering the case for a soft landing, or at least a shallow recession, in which the Fed is able to continue to raise interest rates, at a slower pace, to get inflation under control, without causing a nasty recession. Despite apparent dissent within the FOMC, with some members being outspokenly hawkish, we believe that a confirmation of the moderation in the Fed's messaging and actions would at least be moderately positive for risky assets.

US Economy

The Q2 GDP figure, - 0.9%, was dragged lower by inventories which impacted the number by 2%. This shouldn't come as a surprise given all the warnings from companies - such as Target having too much inventory. Residential spending was also down 0.7%, reflecting the impact of high mortgage rates, which should have a positive impact on next month's inflation number. So, two consecutive quarters of negative growth would put us, according to literature, into a recession. The first quarter, however, was negative due to net exports, down 3.23%, as the American consumer went on a spending binge of imported products. The job market is still solid, despite the emergence of conflicting indicators. We are not yet in a recession. However, evidence is emerging of a K-shaped economy, whereby the lower/middle income population is struggling, while those with the higher incomes are doing fine. This is evident in the different behavior, as well as the inflation components.

The inflation number just published has two sides to it: the central bank and investment community, and the average consumer. The inflation number was dragged lower by energy prices, used cars, air tickets and apparel. However, everyday food items, such as, for example, breakfast essentials like milk, eggs, bacon, sausages, cereals and bread keep rising, and electricity remains stable. One-year price changes are:

- Eggs +39%
- Bacon and sausage for breakfast +14%
- Cereals and bread +16%
- Milk +17%

And despite the price of gasoline having fallen to below 4 dollars per gallon, consumers are still paying 47% more than one year ago. This is more likely to have political consequences at the midterm elections, as the average American is not feeling the peak in inflation, despite President Biden telling them that inflation was flat month on month. In fact, 2/3 of Americans are driving less than usual, and demand for gasoline has already peaked in July, despite the fall in prices, 1 month ahead of time.

EARNINGS

Earnings have fared better than feared. Certainly, several companies have missed badly, as they struggle to understand and forecast the behavior of the post-pandemic consumer 3.0, that will soon come back from a very expensive vacation. In terms of crude numbers, the average S&P500 company surprised positively in sales by 3% and nine earnings by 4.4%. In Europe, those numbers were respectively 5.4% and 9%. However, the market, in view of all the uncertainties, be they economic or geo-political, was little interested in results for the past quarter: its focus was on forward guidance. Most of the companies who significantly lowered their guidance, got severely hammered.

STRATEGY

While the sky got rid of some very dark clouds, that were hovering over our heads back in June, we think it is too early to add further risk to portfolios. The markets are increasingly at risk of having a binary outcome. There is simply too much uncertainty regarding (not in order of importance):

- Taiwan
- The Italian elections
- Russian gas flows
- Ukraine
- The potential worsening of the European energy crisis, in case of the inability of barges to transit the Rhine and / or the Danube, due to low water levels. One big barge of 110-130 meters can carry 6500 tons, very often coal and crude oil: it is not a practical and economic option to replace one single barge with over 200 heavy trucks
- A potential monetary policy mistake by a central bank

With the strong outperformance of equities versus bonds since mid-July, portfolios have now drifted overweight the former asset class. We therefore decided to bring the weights back to neutral, by selling the Pet and Animal Wellbeing thematic, and reducing exposure to Europe. Introduced in 2020, this year its performance has been disappointing, however it served us well in the past, as the thematic was up 40% in 2020, and 18% in 2021.

On a side note, some of our thematic vehicles during this rebound have outperformed strongly, such as the UN's 17 Sustainable Development Goals - up 15%, and the Health Improving Technologies and Services - also up 15% over the period.

Positioning

Overall Exposure

We are Neutral Equities, and Underweight Fixed Income, with a long Gold position, fully USD hedged.

Equity: Neutral

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, 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

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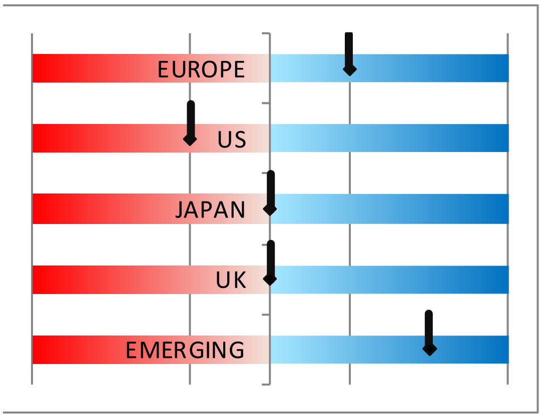
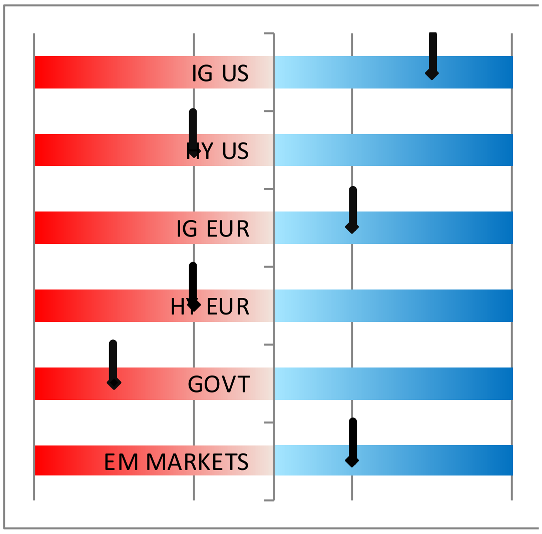
Conviction Thermometer

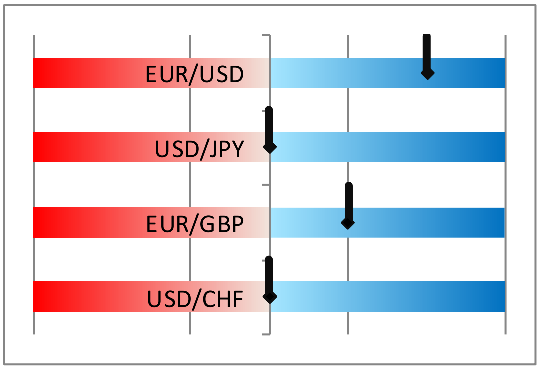
Equities



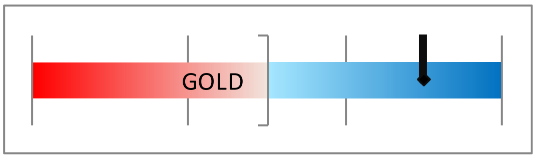
Bonds



Currencies



Commodities



*Negative view / Positive view

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WEALTH MANAGEMENT

MARKET OVERVIEW AS OF 29TH JULY 2022

EQUITIES (local ccies)	Level	5D	MTD	YTD	2021
MSCI WORLD	2 746,37	3,63%	7,97%	-13,92%	22,38%
GERMANY DAX	13 484,05	1,74%	5,48%	-15,11%	15,79%
FRANCE CAC40	6 448,50	3,73%	8,98%	-7,37%	31,88%
UK FTSE100	7 423,43	2,06%	3,66%	2,61%	18,40%
BELGIUM BEL20	3 796,84	1,55%	3,12%	-9,79%	21,86%
SWISS MARKET INDEX	11 145,91	0,45%	3,77%	-11,08%	23,73%
EUROPE EURO STOXX 50	3 708,10	3,10%	7,47%	-11,21%	24,10%
US S&P500	4 130,29	4,28%	9,22%	-12,59%	28,68%
NASDAQ 100	12 947,97	4,46%	12,60%	-20,30%	27,51%
RUSSELL 2000	1 885,23	4,35%	10,44%	-15,45%	14,78%
JAPAN TOPIX	1 940,31	-0,79%	3,72%	-1,25%	12,77%
MSCI EMERGING	993,78	0,42%	-0,17%	-17,68%	-2,32%
BRAZIL IBOVESPA	103 165	4,29%	4,69%	-1,58%	-11,93%
MEXICO MEXBOL	48 144,33	1,86%	1,36%	-8,04%	24,07%
RUSSIA MICEX	2 213,81	5,58%	1,54%	-40,07%	21,88%
CHINA CSI 300	4 563,77	-1,54%	-6,33%	-14,10%	-3,51%
INDIA SENSEX	57 570,25	2,67%	8,72%	-0,26%	23,23%
KOREA KOSPI	2 663,34	2,44%	5,10%	-17,33%	5,56%
HONG KONG HANG SENG	20 156,51	-2,20%	-7,32%	-11,79%	-11,84%
AUSTRALIA ALL-SHARE	4 107,01	1,99%	4,35%	-0,45%	18,29%
SAUDI ARABIA TADAWUL	N.A.	1,44%	5,93%	9,38%	33,19%

US: Sectors	Level	5D	MTD	YTD	2021
COMMUNICATION SVCS	192,55	2,49%	3,71%	-27,57%	21,57%
CONSUMER DISCRETIONARY	1 281,51	5,55%	18,94%	-20,10%	24,43%
CONSUMER STAPLES	773,50	1,65%	3,30%	-2,47%	18,63%
ENERGY	598,74	10,38%	9,72%	44,44%	54,35%
FINANCIALS	560,04	2,99%	7,21%	-12,86%	34,87%
HEALTH CARE	1 541,88	2,00%	3,32%	-5,29%	26,13%
INDUSTRIALS	808,28	5,71%	9,50%	-8,88%	21,10%
INFORMATION TECHNOLOGY	2 522,61	5,09%	13,54%	-17,01%	34,52%
MATERIALS	491,31	4,10%	6,14%	-12,86%	27,28%
REAL ESTATE	277,49	4,88%	8,54%	-13,29%	46,14%
UTILITIES	375,65	6,51%	5,50%	4,92%	17,67%

EUROPE: Sectors	Level	5D	MTD	YTD	2021
BASIC MATERIALS	2 856,89	5,57%	5,47%	-5,91%	22,50%
CONSUMER GOODS	4 502,36	1,89%	6,94%	-0,85%	25,09%
CONSUMER SERVICES	1 311,76	3,85%	12,13%	-13,16%	22,44%
FINANCIALS	714,04	3,39%	3,62%	-8,01%	29,12%
HEALTH CARE	3 505,08	0,03%	4,13%	1,56%	27,58%
INDUSTRIALS	3 061,96	4,29%	14,15%	-16,36%	31,32%
OIL & GAS	1 361,66	6,28%	4,61%	20,90%	26,63%
TECHNOLOGY	1 359,35	3,09%	14,03%	-21,16%	38,92%
TELECOMS	607,58	-0,06%	-0,35%	2,97%	16,24%
UTILITIES	1 962,49	4,13%	8,93%	-3,52%	7,75%

WORLD: Styles	Level	5D	MTD	YTD	2021
QUALITY	3 347,71	3,39%	8,50%	-17,50%	25,66%
MOMENTUM	3 153,01	3,55%	4,38%	-19,41%	14,64%
VALUE	10 862,96	3,04%	4,57%	-8,15%	21,94%
GROWTH	7 697,42	4,22%	11,54%	-20,59%	21,18%
VOLATILITY	7 972,97	3,28%	6,63%	-12,21%	21,77%
SIZE	7 347,07	3,11%	7,10%	-18,64%	18,02%
DIVIDEND	4 378,33	2,68%	4,98%	-9,09%	19,40%

FIXED INCOME	Level	5D	MTD	YTD	2021
Pan-Euro 3-5 yrs IG	206,32	1,10%	2,72%	-5,10%	-0,51%
Euro Aggregate	244,80	1,73%	4,14%	-8,49%	-2,85%
Pan-Euro HY Hedged Eur	375,38	1,14%	4,82%	-10,03%	3,46%
Global Inflation hedged EUR	262,07	3,13%	4,86%	-8,87%	4,66%
US Corp High Yield	2 264,90	1,53%	5,90%	-9,12%	5,28%
EM USD Aggregate TR	1 260,87	1,88%	2,11%	-15,39%	-1,65%
EM Aggregate TR Local Ccy	137,28	1,50%	0,88%	-8,17%	-1,59%
EUR Banks CoCo Tier 1	140,83	3,43%	5,06%	-10,11%	4,65%
EU GOVT HEDGED EUR	225,21	1,71%	3,82%	-10,26%	-4,21%
Global Aggregate	2 554,99	1,15%	2,13%	-12,08%	-4,71%

COMMODITIES	Level	5D	MTD	YTD	2021
GOLD	1 765,94	2,22%	-2,29%	-3,46%	-3,64%
COPPER	357,35	6,72%	-3,80%	-19,94%	26,84%
OIL WTI	98,62	4,14%	-6,75%	31,13%	55,01%
OIL BRENT	110,01	6,60%	-4,18%	41,44%	50,15%

CURRENCIES	Rate	5D	MTD	YTD	2021
EURUSD	1,0220	0,07%	-2,52%	-10,11%	-6,93%
GBPUSD	1,2171	1,43%	-0,06%	-10,06%	-1,01%
USDJPY	133,27	-2,09%	-1,81%	15,81%	11,46%
USDCHF	0,9524	-1,09%	-0,28%	4,33%	3,13%
AUDUSD	0,6985	0,81%	1,19%	-3,82%	-5,60%
USDRUB	62,26	7,02%	3,63%	-16,59%	-11,08%
USDCNY	6,7445	0,35%	-0,13%	-0,13%	5,28%
USDKRW	1 106,85	0,20%	0,07%	0,07%	4,22%
USDINR	79,27	-0,73%	0,38%	7,94%	9,15%
USDTRY	17,9196	1,06%	7,31%	34,69%	78,81%
BITCOIN	23 952	5,96%	27,87%	-48,31%	59,79%

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