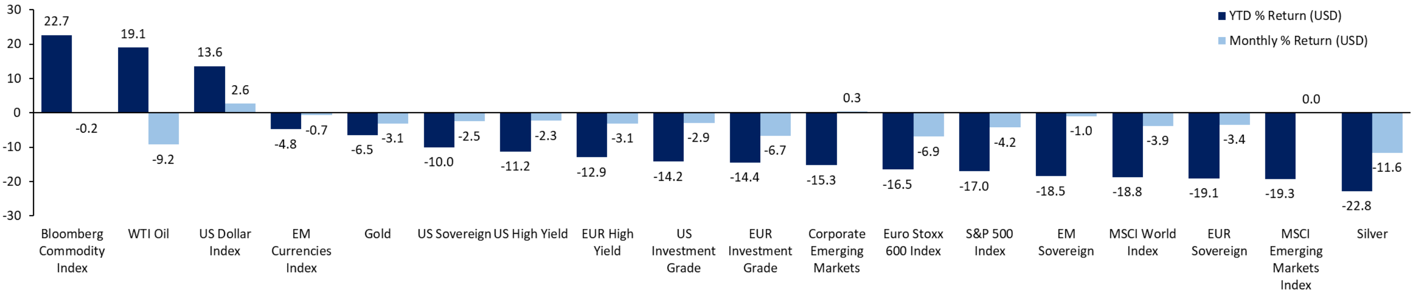
September 6, 2022

Monthly Market Wrap, August 2022

Pronounced, pervasive, and persistent declines in industrial output, labour, broad income, and broad sales characterize a recession. Industrial output is clearly declining and the two consecutive negative US GDP prints are a prime example of that. Business activity is swiftly declining while real consumption remains negative. Labour has historically been the last domino to drop. A clear evidence of falling labour market activity has yet to manifest for officials to acknowledge a recession is underway. The Fed made clear it will not hesitate to pressure the economy to tame inflation. Investors should brace for tough times ahead.

Chart 1. Asset Class Return YTD (USD Base)



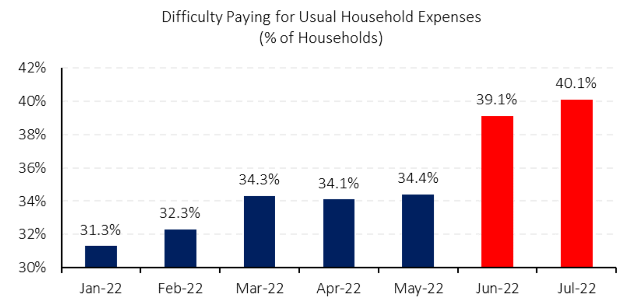
Equities

Performance was two-toned this month. The sequentially lower inflation print fuelled a risk-on bear market bounce as investors begun to price in a potentially less-hawkish Fed. Short coverings amid low summer liquidity only extended the bounce to lower high. However, markets sharply reversed course when central banks re-iterated their commitments to bringing down inflation by tightening financial and monetary conditions even if it came at the expense of lower economic output and growth. The MSCI World closed the month down 4.2% (-17.8% YTD).

The S&P 500 started the month strong, posting positive returns for four weeks in a row (a first since October 2021) amid better than expected ISM data, a decelerating headline inflation, and a still strong jobs report. It was down 4.2% in August (-16.1% YTD) and more than 8.5% down from its summer highs. The Nasdaq continued to underperform, down 5.14% (-24.8% YTD). Energy and utilities were the only two positive sectors up a respective 2.6% and 0.5% last month. Meanwhile, technology suffered the most from the Fed's rhetoric at -6.2% MoM (-21.9% YTD).

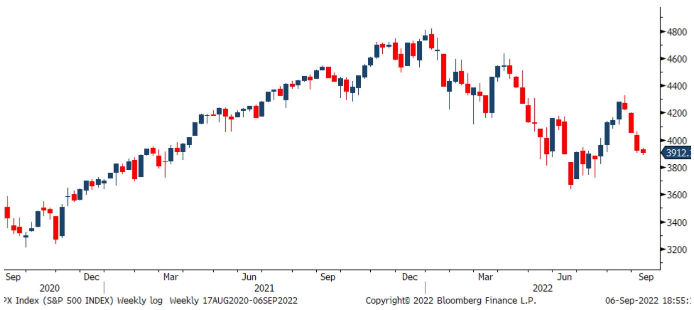
European equities faced similar headwinds. Inflation continued to accelerate with the Eurozone CPI rising to a record 9.1% YoY and energy being a large contributor. The elevated readings are pushing the ECB to act more forcefully, raising rates at a faster pace. Markets are balancing the odds of a 50/75 bps rate hike. Although energy commodity storge build ups have progressed at an above average pace and inventories are running at higher than normal levels, waves of energy curbs in the winter cannot be excluded. Inventories will not suffice to last through winter. As such, it was no surprise to see Germany as worst performing region, down 7.4% MoM, followed by France, down 7.3% MoM.

Chart 2. Consumers In Great Pain



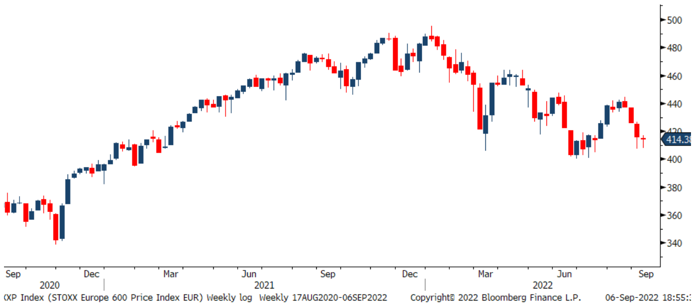
Source. US Census Bureau, MAM Research

Chart 3. S&P 500 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Fixed Income

Economic data out of the US continues to support the case of a slowing and deteriorating economy. ISM Manufacturing fell to a two year lower (but better than expected), US consumer credit card balances hit an all-time high at $1.1tn, business inventories continue building up for the 22nd consecutive month, and the S&P Services PMI plunged to 44.1 (lowest since May 2010). The hawkish highlights from Fed members at Jackson Hole helped in pushing the 2-Year Treasuries yields up towards 3.49%, highest level in 15 years. The 10-2 Year spread further declined to the lowest point since August 2000 at -48bps. Then, expectations of tighter financial conditions also contributed in lifting short-term real rates. The two year real rate rose to 61bps, its highest level since March 2020, and up from -25bps earlier this month.

Record-high inflation figures in Europe propelled German bond yields even higher as investors continued to search for clues on how far and fast the ECB can raise rates to tame inflation, which has been exacerbated by a deep energy crisis. The 10-Year Bund yields rose by 70bps to 1.61%, fastest raise since 1990.

Despite introducing the Transmission Protection Instrument (TPI), which saw the ECB sell €15bn of Bunds and purchasing €10bn of Italian bonds, spreads between the two 10-Year yields widened further to 240bps, and not a sign of strength ahead of the ECB meeting next week.

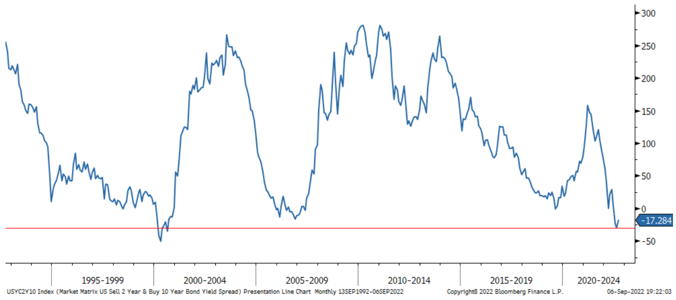
Currencies

The dollar strengthened for the third straight month in August, reaching a new year-to-date high at 109.50. The Fed's hawkish rhetoric continued to support the greenback meanwhile trade balances and relative growth expectations continued to weigh in the balance. Jackson Hole also closed the door on any dovish interpretation for the time being. The dollar was up 2.6% MoM, now up by more than 13.6% YTD.

The situation in Europe continued to deteriorate, pushing the Euro back to parity. Energy prices remained out of control, with France and Germany's electricity costs for next year doubling in the space of two months, hitting new ATHs at over 700 €/MWh. Adding to supply chain worries, the Rhine, one of the main arteries for the transportation of goods in Europe, dried up so much that barges carrying coal and gas imports struggled to continue to use this form of transportation. The Euro continued to decline for the 3rd straight month, -1.6% MoM (-11.6% YTD).

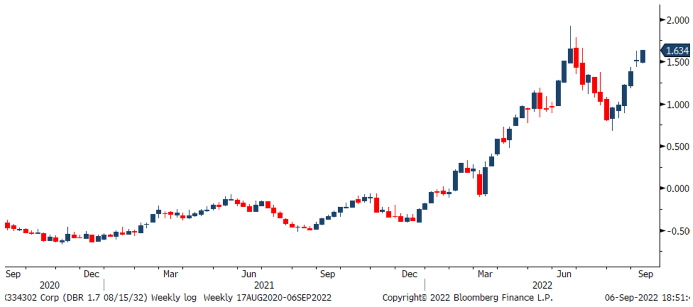
In the UK, inflation hit a new 40-year high of 10.1% in July. It has now the highest inflation rate since 1982, the highest tax rate in 70 years, and the biggest drop in living standards since 1956. Unsurprisingly, the GPB broke the 1.20 level to end the month at 1.16, down 4.51% MoM (-14.1% YTD). Ex-pandemic crash, GBP trades at its lowest level since 1984.

Chart 5. US 10-2 Treasury Spread (Monthly)



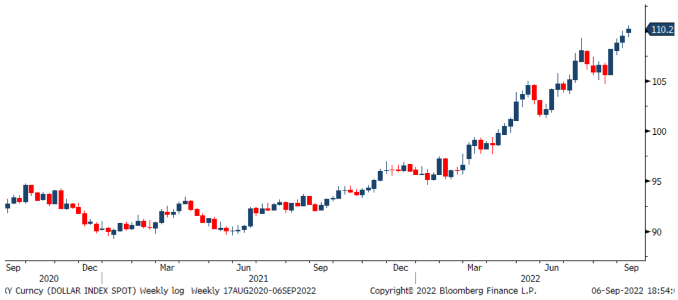
Source. Bloomberg, MAM Research

Chart 6. German 10-Year Bund Yield



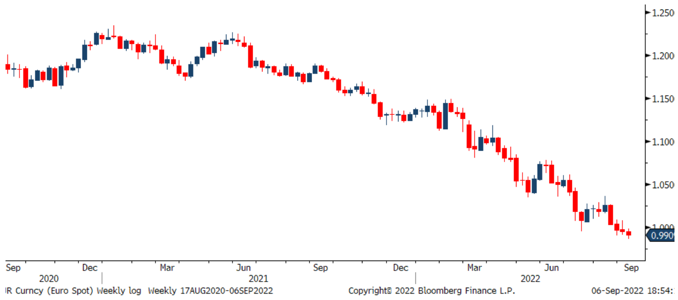
Source. Bloomberg, MAM Research

Chart 7. US Dollar Index (Weekly)



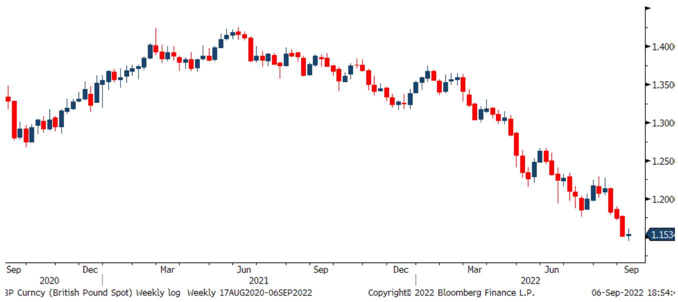
Source. Bloomberg, MAM Research

Chart 8. USD/Euro Spot Exchange Rate (Weekly)



Source. Bloomberg, MAM Research

Chart 9. USD/GBP Sport Exchange Rate (Weekly)



Source. Bloomberg, MAM Research

Commodities

Commodities were one of the few positive asset classes as the broader index rose 0.1% in August (+23.6% YTD).

The energy sector rose another 98bps (+79% YTD). Natural gas prices were a key contributor to positive returns for energy by being up 10.9% (+144.7% YTD). European energy woes and the Gazprom Nord Stream pipeline shutdown announcement have continued to support natural gas prices. WTI crude oil slipped for a third consecutive month, down 9.2% MoM (+19.1% YTD), as demand fears resurfaced in light of China's zero-Covid policy and city lockdowns re-emerged in the region and news reports of an imminent Iran nuclear deal surfaced.

Industrials were down 2.6% (-10.6% YTD) as the Fed warned of a painful period of slow economic growth ahead. China's policy once again hit industrial demand sentiment. Copper prices fell for a 5th consecutive month, down 1.5% (-21.2% YTD).

Agriculture were the best performer, up 2.7% (+12.7% YTD), as severe droughts across the northern hemisphere and elevated energy prices supported higher prices.

Precious metals underperformed, down 4.9% (-10.9% YTD), as gold suffered from higher real yields and a strong dollar. Gold was down 3.11% (-6.46% YTD).

Emerging Markets

EM equities outperformed last month, up 42bps (-17.5% YTD).

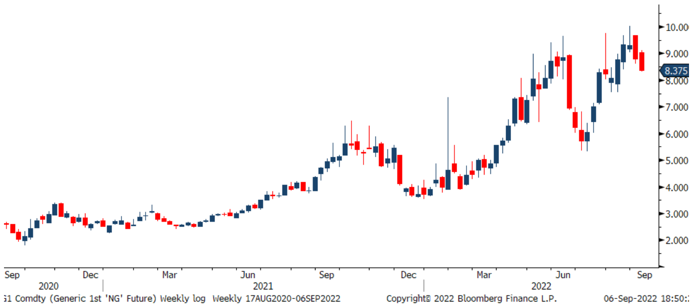
Despite the headwinds (i.e., growth outlook, zero-Covid), China equities rose 22bps last month (-19.5% YTD). Regional equities were buoyed by further rate cuts with the 1-year prime rate being trimmed by 5bps and the 5-Year by 15bps. However, the economic data continues to show deteriorating factory activity for the second month in a row.

Turkey was the best performing region, up 16.9% in USD terms (+21.0% YTD) as a surprise rate cut sent the lira near a record low, adding fresh impetus to the hunt for investments offering protecting against scorching hot inflation.

Poland, on the other hand, was amongst the worst performing EM regions, down 13.2% (-43.1% YTD). Energy supply risks and surging coal prices (main fuel for Polish power production) are trimming profit outlook and exacerbating inflationary pressures.

The MSCI Emerging Market Currencies Index was down 72bps last month (-4.8% YTD). The Chinese Renminbi was continued to weaken against the dollar for the 6th consecutive month, down 2.3% (-8.7% YTD). The Mexican Peso was down 1.1% while the Brazilian Real rose 20bps.

Chart 10. Natural Gas Continuous Futures (Weekly)



Source. Bloomberg, MAM Research

Chart 11. WTI Crude Oil Continuous Futures (Weekly)

Source. Bloomberg, MAM Research

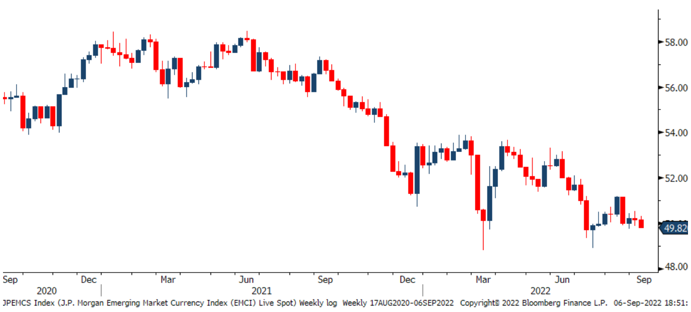
Chart 12. Copper Continuous Futures (Weekly)

Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)

Source. Bloomberg, MAM Research

Chart 14. MSCI EM FX Index (Weekly)



Source. Bloomberg, MAM Research

Disclaimer

This document has been prepared by Monaco Asset Management (MAM). It gives a general overview of the strategies proposed by MAM.

This document is confidential and is intended solely for the recipient and may not be duplicated, distributed or published either in electronic or any other form without the prior written consent of MAM.

This document has not been reviewed or approved by any regulatory authority. It is not a personal recommendation. It is for your information only and is not intended as an offer, solicitation of an offer, public advertisement or recommendation to buy or sell any investment or other specific product. Its content has been prepared by our staff and is based on sources of information we consider to be reliable. However, we cannot provide any undertaking or guarantee as to it being correct, complete and up to date. The circumstances and principles to which the information contained in this publication relates may change at any time. Once published, therefore, information shall not be understood as implying that no change has taken place since its publication or that is still up to date. Furthermore, MAM is not under obligation to update the information contained in this document.

The information in this document does not constitute an aid for decision-making in relation to financial, legal, tax or other consulting matters, nor should any investment or other decision be made on the basis of this information alone. All recipients of this document are urged to carry out their own due diligence into any investment opportunity. They should form their own assessment and take independent professional advice on the merits of investment and the legal, regulatory, tax and investment consequences and risks of so doing.

We do not guarantee the accuracy or completeness of information which is contained in this document that may have been obtained from or is based upon trade and statistical services or other third party sources.

We disclaim without qualification all liability for any loss or damage of any kind, whether direct or indirect, which may be incurred through the use of this publication.

The above information concern this document and any associated documentation, including the e-mail or cover letter.

MAM is registered with the Monaco Chamber of Commerce and Industry under the number 99S03612 and is approved by the Commission for the Control of Financial Activities under number SAF/99-03.