Market Monthly

May 2022

Highlights

- **Economics:** Focus of market participants moved from geopolitical issues to dire economic growth prospects and rising inflation. Possibilities of recession in USA are increasing, after GDP contraction recorded in Q1, while retail sales posted surprisingly decline of -0.3% and comments about overheated real estate market continue to increase. Labor market is still resilient, with unchanged unemployment rate of 3.6%. Biden administration is currently busier with making alliance with Southeast Asian countries then with economic policy, so FED moves are closely monitored. Same situation is in the Europe, where the surge in energy prices and more regulated wages demand prompt reaction from ECB to combat the inflation. ZEW Indicator of economic sentiment moved slightly up from the 2 years low in April, but overall view is bearish. Unemployment rate remains low at 6.2%. China on the other hand have hard time to reduce unemployment rate from the current level of 6%, and growth rates in election year would be lowest for more than 2 decades.
- **Inflation:** Another increase in inflation, putting highest marks in more than 40 years for USA, adding 0.4% from April to a 8.7% recorded in May, Eurozone is slightly below with 8.1%, while other readings were as follows: China 2.1%, Russia 14.0%, Brazil 11.7%, India 7.0%.
- **Central bank interest rates:** As expected, FED hiked by 50bps on May meeting, putting key policy rate in corridor 0.75%-1.00%. Even ECB starts to advocate rise of the interest rates, but for the first move they officially ended asset purchase program. China National Bank didn't lower rates, while after briefly lifting key interest rates above 20%, Russian Central Bank cut it to pre-war levels.
- **Capital market rates:** In May, 10Y US Treasuries recorded low fluctuation, trading in tight range between 2.8%-3.0% April, while 10Y Bunds continued with steady yield growth, ending month with 1.2%, climbing by almost 30bps from the previous month.

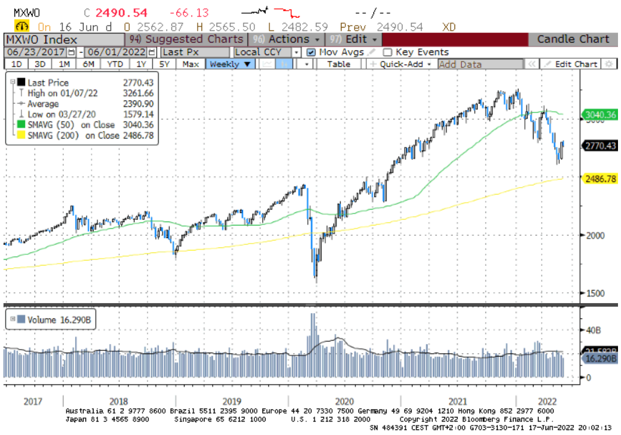
Tactical Asset Allocation

- **Forex:** Low volatility during the May was temporarily changed from the more hawkish rhetoric of ECB by the end of month, where EUR gained 2-3% combined, but most of the month EUR/USD spot was hovering around 1.05.
- **Bonds incl. High Yields (N[i]):** End of near-zero/negative policy rates and negative real rates is approaching, so we are now more focused in investing cash proceeds into short term bonds, prioritizing dollar denominated, while waiting EUR yields to catch up.
- **Equities (U):** Overall result was flat, but slight uptrend movement can be recognized in second half of the month, as bullish investors poured in when SPX entered bear market. However, this action could be short breathed. Some signs of recovery are recorded in China, when the local regulations are eased toward IT companies, and this could present potential opportunity.
- **Commodities (N):** Moderate increase of 10% is registered, lifting the price of barrel from starting $105/barrel to ending $115. OPEC still restrains from increasing the output, while more and more European countries are finding alternative ways to import oil from Russia.

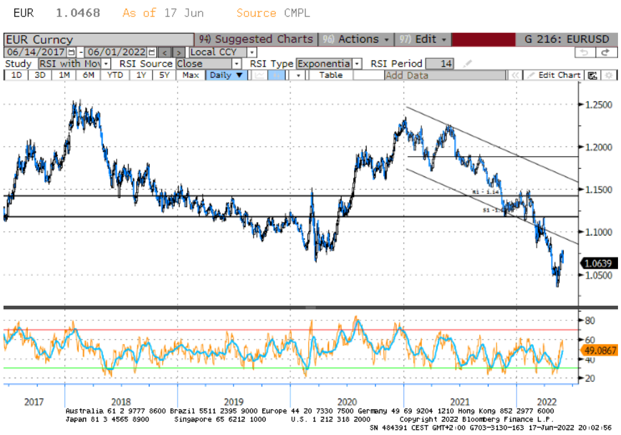
Investment Ideas[ii]

- Except possible investments in China stocks, we are looking to increase short position in Dax, while going long agriculture sector.

Performance Equity Markets MSCI World 5Y[iii]



EURUSD Technical Chart 5y, Bloomberg



[i] How to read: (U) underweight; (N) neutral; (O) overweight
[ii] See rationales on our web page www.aspermontcapital.ch

[iii] Return for the last rolling 12m