Market Monthly

June 2022

Highlights

- **Economics:** Despite labor market continue to show better than expected numbers with almost 400k added jobs in June, USA is on the brink of recession. Lack of action from the fiscal side makes input from FED more valuable, and with current unemployment rate of 3.6%, hawkish action is certain thing. Inflation is major word that shapes markets, and distressed supply chains finally take its toll in terms of expected market activity. Recession fears caused worst H1 market performance of S&P 500 in last 52 years, plunging more than 20%. PMI Manufacturing in Europe posted value of 52.1, losing 2.5 points in June, and business sentiment is worst since outbreak of corona. Situation in Ukraine is not stabilizing, while inclusion of Finland and Sweden to NATO could possibly lead to further escalation. So far, Germany took hardest hit, as Russia limited gas supply to only 40%. Unemployment rate fell slightly to 6.6%, but GDP figure for Q2 will most likely be negative. With easing of coronavirus measures, China PMI moved to positive territory once again (50.2), while there are improvements on internal regulations, especially in IT segment, which creates good conditions for economy growth recovery in H2.

- **Inflation:** Inflation forecast for the June in USA is still well above 8%, while the Europe went further up by 0.5% to 8.6%. Other readings were as follows: China 2.1%, Russia 16.1%, Brazil 11.9%, India 7.0%.

- **Central bank interest rates:** In June, FED raised interest rates by 75bps to corridor 1.5-1.75%, while the additional 75bps hike is expected for the end of July. As usual, ECB is less hawkish by implementing only 25bps increase in July, while the next action is expected in September. With no inflation pressures, China is maintaining key policy rate at 2.85%.

- **Capital market rates:** Yield curves are more inverted, indicating forthcoming recession. 10Y Treasuries surged by 50bps reaching 3.5% in the mid June before felling to beginning of the month value 3.0%. Similar move is recoded on 10Y Bunds, with highest yield value of 1.8% and end month figure 1.2%, while the spread between Germany and Italy bonds is widening.

Tactical Asset Allocation

- **Forex:** Moderate volatility during the June, as both FED and ECB had aligned policies, but more hawkish approach from FED resulted with slight appreciation of USD, spot was trading in range 1.07-1.04, finishing month on 1.05. CHF is stronger comparing to EUR and now parity is on the sight.

- **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):** Very sharp decline on equities, with no exceptions among sectors. However, there is some reversal observed from geographical regions, where China/Emerging markets now outperforming. High inflation expectations continues to hurt growth stocks, while value companies also suffers, especially from oil segment. Currently, defensive stocks are logical choice, but more as value preserver than the upside potential.

- **Commodities (O):** For the first part of the month, oil continued to increase, surpassing $120/barrel, but demand slumped in the second half of June due to recession fears, and posted month performance of -5%. Relief on the agriculture product can also be noticed, as supply from the Ukraine is slowly restored.

Investment Ideas[ii]

- Cautious investment on Chinese market, with focus on IT part.

Performance Equity Markets MSCI World 5Y[iii]
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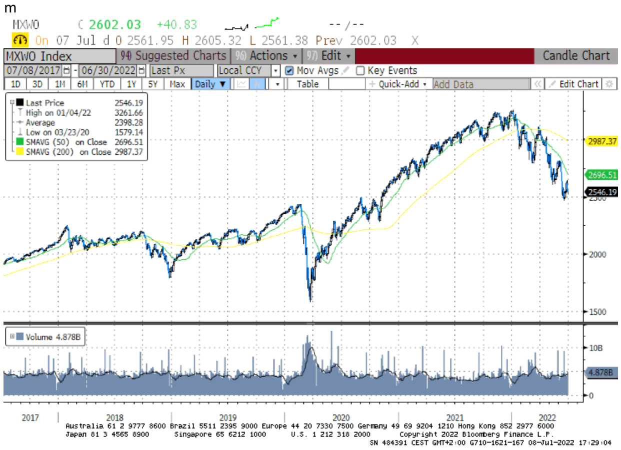
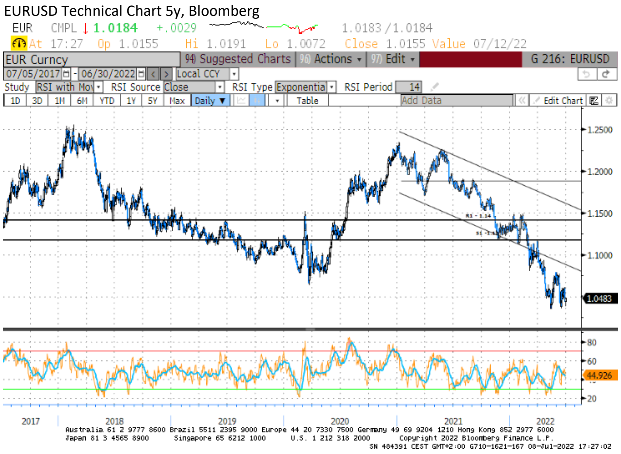


EURUSD Technical Chart 5y, Bloomberg



[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