Market Monthly

May 2023

Highlights

- **Economics:** Fiscal crisis in USA has finally ended. In compromise made by two largest parties, republicans accepted debt ceiling, while republicans in return must cut spendings in next 2 years. Together with impressive summary of Q1 earnings season, where close to 90% of S&P 500 companies results beat estimates eased recession expectation. Although some slowing down of job creation rate lift unemployment rate to 3.7%, this was interpreted as an effectiveness of restrictive FED monetary policy. Eurozone PMI manufacturing readings are in contraction zone, while services figure sit comfortably at 55. Still, inflation is more resilient in EU and ECB is not planning to pause with hikes. On the other hand, China continues to struggle to induce any inflation, import figures extended sliding while in May export also disappointed. Despite having enthusiasm due to reopening, Chinese consumption is not improving.

- **Inflation:** Inflation stabilized in USA, with April value again at 4.9%, while Eurozone figure for same month is 7.0%. Other readings were as follows: China 0.1%, Russia 2.3%, Brazil 4.2%, India 4.7%.

- **Central bank interest rates:** In May, FED raised interest rates for 10th consecutive time, now by 25bps to corridor 5.0-5.25%, and investors now finally expects pause in June meeting. There were no ECB meeting this month, but it is already stated that in June rates are going to be raised by 25bps.

- **Capital market rates:** Yield curves remained inverted, with emphasized pressure on shorter duration bonds due to debt ceiling issue. Before reaching final solution, 10Y US Treasuries yield jumped 20bps to a level of 3.8% before relief in the last week of the May and final value was 3.6%. The volatility of 10Y Bunds was lower, and traded near 2.3% mark for the whole month.

Tactical Asset Allocation

- **Forex:** In May, dollar successfully defended 1.10 resistance level and strengthen for the full month, final spot to EUR was 1.07. Reasons behind this move are bit inconclusive given the fiscal problems in USA.

- **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 starting to invest in EUR bonds, as gap now narrows.

- **Equities (N):** After stronger first 4 months, Europe equities took a break and AI related companies in USA solely were responsible for good results. Stocks from this sector, particularly semiconductor producers entered parabolic growth mode. Rally is very narrow and focused on mega caps, so it is wise to cut some exposure before final debt ceiling decision. Chinese companies continued with struggle.

- **Commodities (U):** Despite very tight control of supply, OPEC+ group didn't manage to keep price of oil above $75/barrel mark. Statement of Russian energy minister that he doesn't expect any action on June meeting pushed price even below $70/barrel level in the end of May.

Investment Ideas[ii]

- Selective entries into emerging market stocks, with focus on India, with gradually increasing equity exposure in case of positive FED outcome.

Performance Equity Markets MSCI World 5Y[iii]
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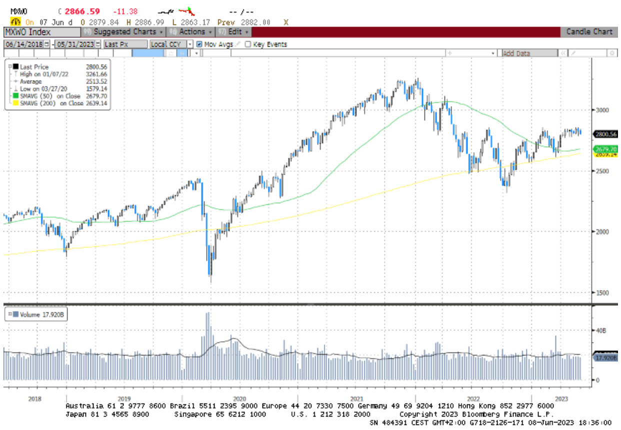
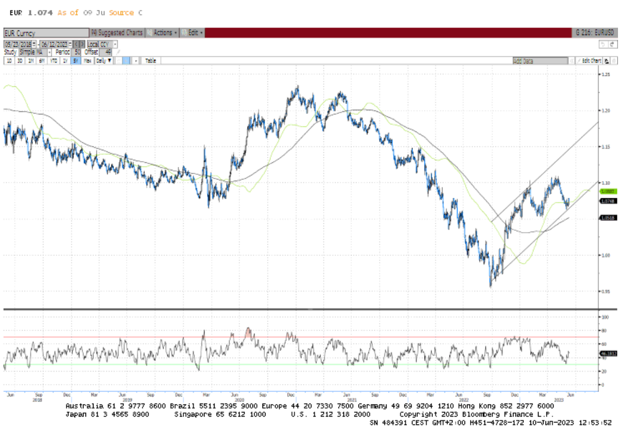


EURUSD Technical Chart 5y, Bloomberg



[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

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