INVESTMENT STRATEGY
WEEKLY VIEW

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MARKETS SEE THE FED ACTING SOONER, BUT IT MAY BE TOO SOON

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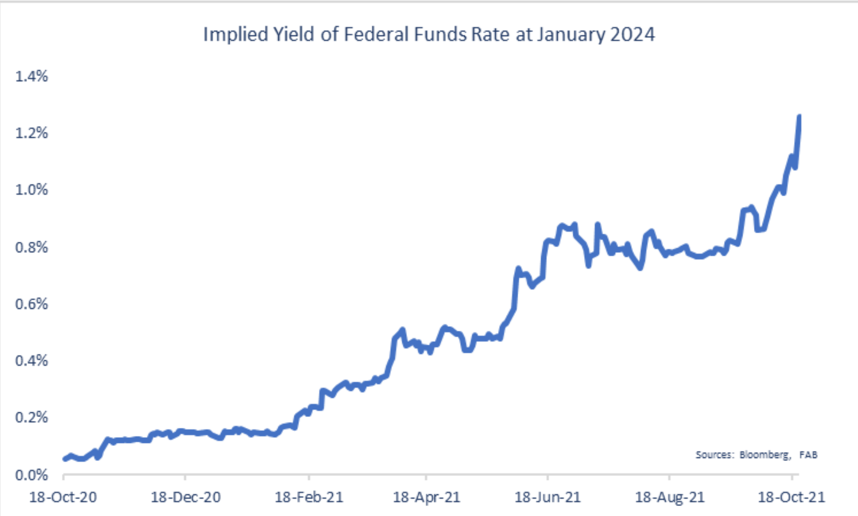
- Markets start to price higher odds of Fed rate hikes as early as next year
- The VIX dropped to 15.01, the lowest since the pandemic began, last week
- So far, 81% of the companies in the S&P 500 had positive earnings surprises in Q3
- Chinese high-yield has started to recover amid positive news from Beijing

With no Federal Reserve meeting to guide markets this month, investors are getting increasingly bearish on fixed income. So far this month, the implied yield on Fed fund futures saw the biggest monthly jump in three years, suggesting growing concern that the recent high inflation will not be transitory and that the Fed will be forced to hike US interest rates as early as next year.

Positive earnings surprises in the US have insulated stocks from the higher rates impact so far, but investors are watching guidance to see how much profits can grow next year. US GDP growth also probably slowed last quarter, adding to that question. However, there is reason to believe inflation will slow next year and growth will remain strong, which should support risk assets.

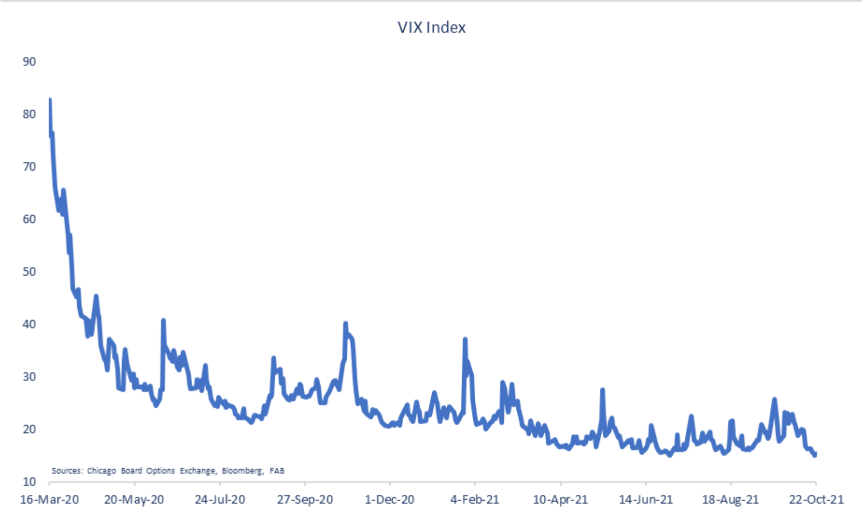
THE MARKET IS PRICING FIVE FED RATE HIKES BY JANUARY 2024, TWO NEXT YEAR



- Economists expect September core PCE, the Fed's preferred inflation gauge, to come in at 3.7% this week.
- The measure has only been below 2%, the Fed's target, for three months this year so far.
- This has been reflected on Fed fund futures, which now imply at least two rate hikes next year and five by the end of 2023.
- Treasuries are also reflecting these expectations, with two- and 10-year yields up 25 and 35 basis points since September 14th respectively.

LAST WEEK, THE VIX FELL TO 15.01, THE LOWEST SINCE THE PANDEMIC BEGAN

- The S&P 500 marked another all-time high last week, helped by a raft of positive earnings surprises.
- Technology companies have been the best-performers in terms of beating earnings, while interest-rate sensitive utilities have been the worst so far.
- Investors are watching guidance, with many companies mentioning expectations of slower economic growth next year.
- The performance has prompted analysts to start revising earnings expectations upwards.



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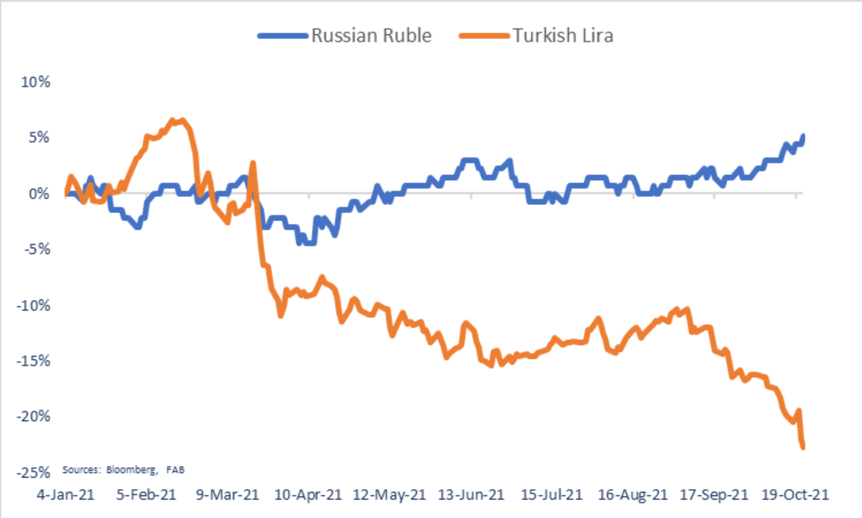
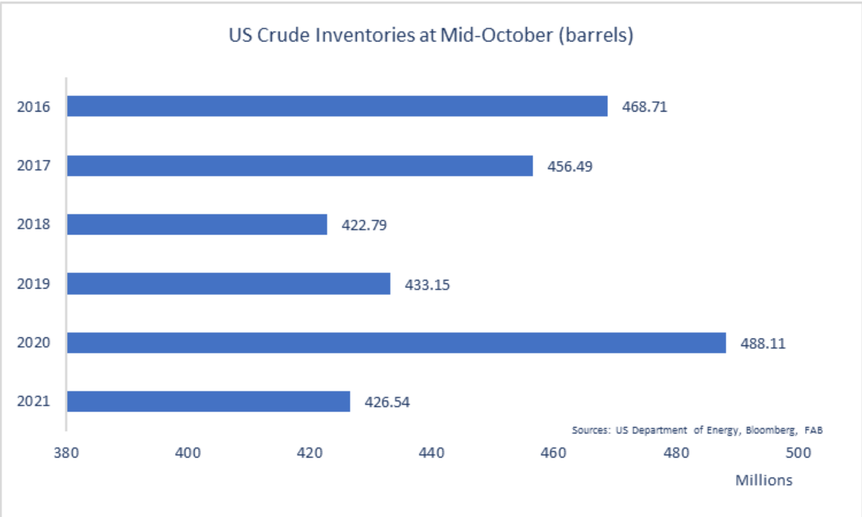
HIKES FROM RUSSIA AND CUTS FROM TURKEY HAVE MADE CURRENCIES DIVERGE

- Russia hiked rates by 75 basis points when markets expected 25, while Turkey cut by 200, against forecasts of 100, last week.
- This year EM central banks showing commitment to inflation targets have seen their currencies outperform.
- Russia and Turkey have most of their reserves in gold and the currency moves have impacted the metal.
- This week, investors will watch the Brazilian central bank's decision as recent additional fiscal stimulus has weighed on its currency.



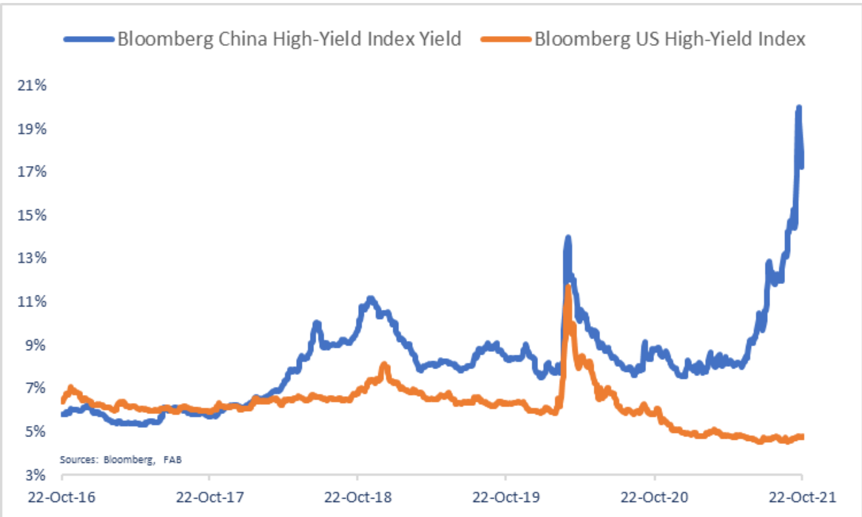
US CRUDE OIL INVENTORIES ARE INDICATING THERE IS MORE DEMAND THAN SUPPLY



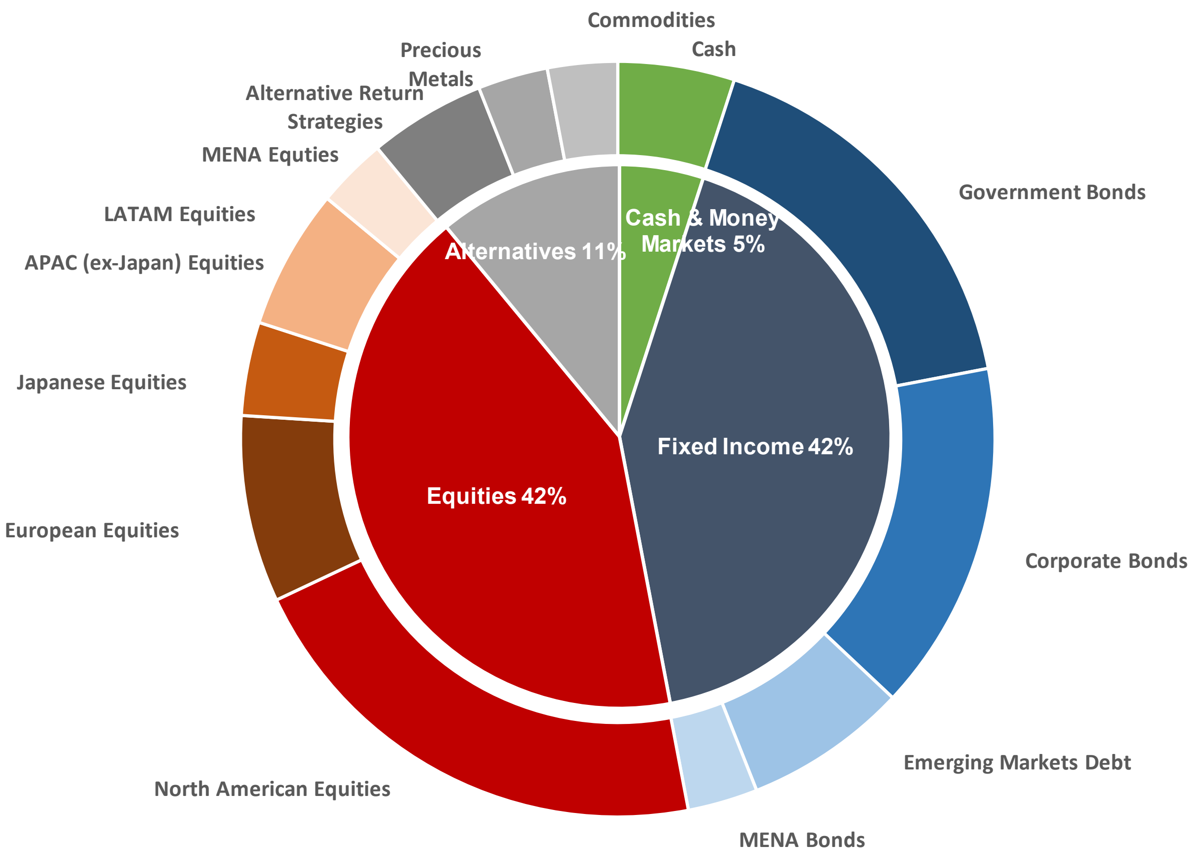
- News of renewed movement restrictions in some countries amid a surge in new Covid-19 cases weighed on oil prices last week.
- Inventories in the US, however, fell more than expected and the current level is one of the lowest for this time of year since at least 2016.
- This suggests there currently still is more demand than supply of energy.
- The shortfall is only likely to increase from here, with demand for heating in the northern hemisphere and the reopening of Asia adding to it.

CHINA HIGH-YIELD BONDS RECOVER, BUT STILL OFFER EXTREMELY HIGH RETURNS

- News that Evergrande may have paid a late coupon before the end of the grace period helped support Chinese high-yield bonds.
- The yield on the Bloomberg China High-Yield index has fallen back to 17.8% from an all-time high of 20%.
- The recovery began after the People's Bank of China said that the risks of the property bonds are 'controllable'.
- At current yields, Chinese junk debt still offers on average 13 percentage points more yield than their US equivalents.



Asset Class	Positioning	Detail
Cash	Underweight	Putting cash to work in risk assets.
Fixed Income	Overweight	Keeping a slight overweight focused on EM dollar debt and on corporate investment grade bonds
Equities	Overweight	Slightly overweight in Asia ex-Japan and US markets.
Alternatives	Underweight	However, reducing the underweight in hedge funds



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