INVESTMENT STRATEGY
WEEKLY VIEW

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THE ECB AND THE BOE ARE JOINING THE FED AGAINST INFLATION

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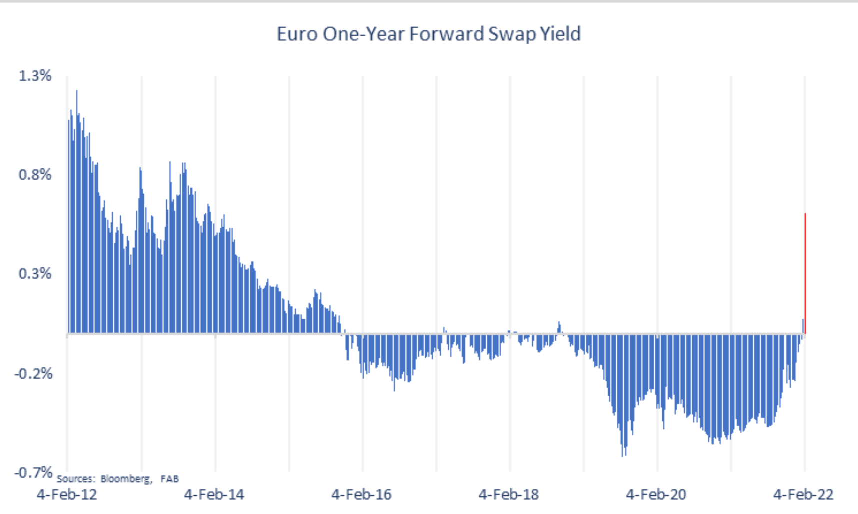
- ECB Chairwoman Christine Lagarde's comments last week allowed for hikes this year
- The BoE increased rates by 25bp with four of nine governors voting for 50bp
- Yields on bonds across the globe rose sharply after the ECB's hawkish tilt
- Brent crude is closing in on US$100/barrel adding to global inflationary pressures

One of the saving graces of the global bond market over the past decade has been so-called 'policy divergence'. Since 2009, the key central banks in the world seemed to only act together to ease monetary policy. When one tightened, there always was some more easing elsewhere. This meant that selloffs in Treasuries, for instance, were capped by foreign investors.

The second straight hike by the BoE on Thursday, the same day the ECB indicated it could hike rates this year, was proof that the key policymakers are now working together to fight inflation. This had an immediate impact and the yield on 10-year US Treasuries closed above 1.9% for the first time since 2019 on Friday. The entire market is now adjusting to the new reality.

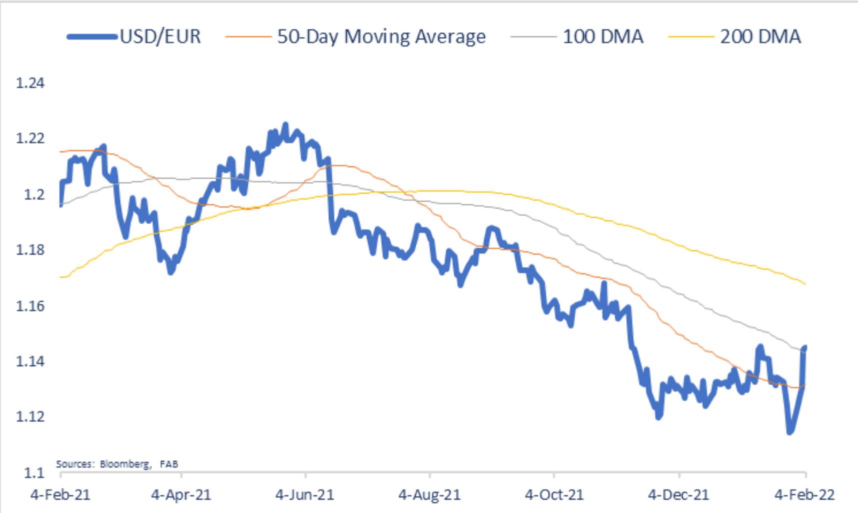
ONE-YEAR/ONE YEAR EURO FORWARD SWAP YIELDS STAGED A 10-SIGMA MOVE UP



- The implied yield on one-year/one-year forward Euribor swaps closed the week at 0.61%, a 65 basis points rise in only two weeks.
- The contract rose 53 basis points last week alone, 39 basis points on Thursday and Friday.
- The higher forward rates make investment in euro-denominated bonds more attractive to European investors compared to dollar bonds.
- The move spilled over into dollar bonds and the 10-year US Treasury yield rose 13 basis points in two days.

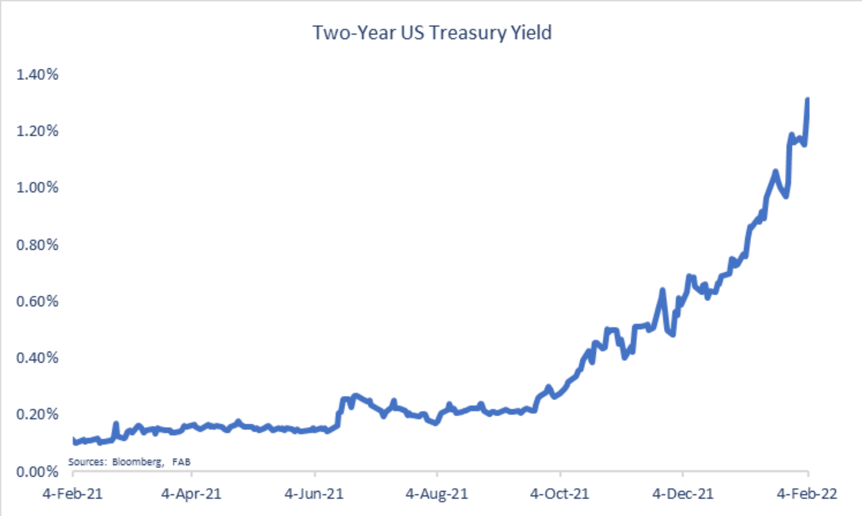
THE EUR/USD ROSE 2.67% LAST WEEK, ITS BIGGEST JUMP SINCE MARCH 2020

- The single currency closed last week at USD1.145/EUR, a big rise from the USD1.115/EUR at which it had closed just a week earlier.
- The move was most pronounced on Thursday and Friday, after the ECB decision and Chairwoman Lagarde's hawkish tilt.
- The yield on 10-year Italian bonds also rose 76 basis points last week, with similar moves in other regional bond markets.
- These moves make it more attractive to invest in European bonds.

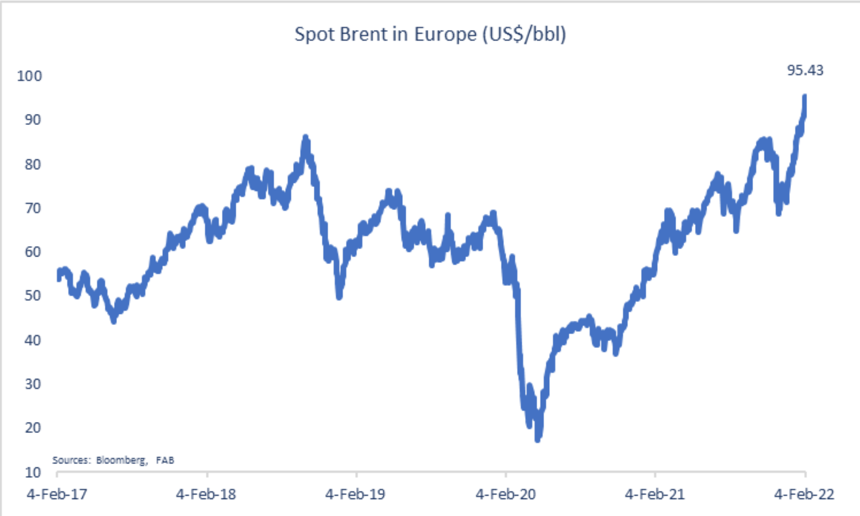


THE YIELD ON TWO-YEAR US TREASURIES ROSE 15 BASIS POINTS IN JUST TWO DAYS

- Two-year US Treasuries finished last week yielding 1.31%, their highest since February 2020, while the 10-year yield rose 14 basis points last week to 1.91%, its highest since 2019.
- US bond volatility as measured by the BofA Merrill Lynch MOVE index rose to 87.68, near the highest since the March 2020 global market selloff.
- The shift in yields is likely to have an impact on corporate bonds in the US.
- Convexity hedging could extend the move further before bond markets stabilize at more attractive levels.



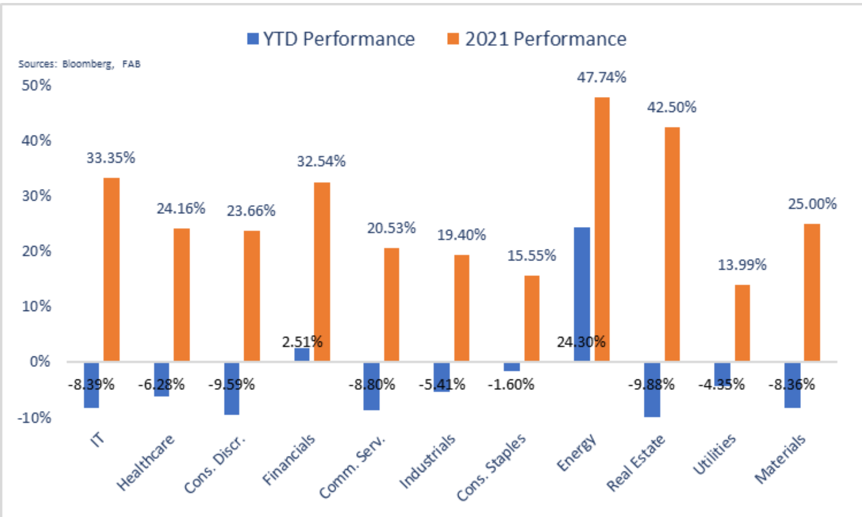
BRENT CRUDE IS APPROACHING US$100/BARREL AS DEMAND OUTPACES SUPPLY



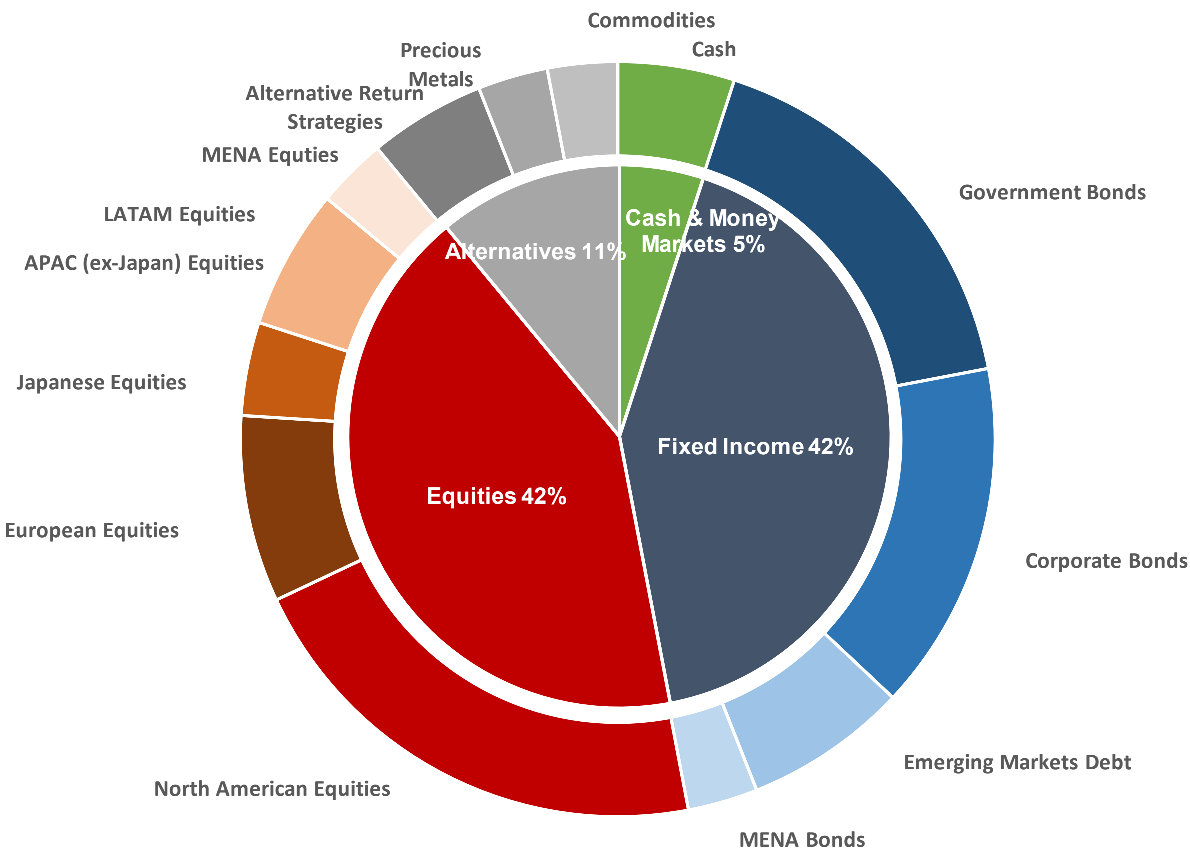
- Last week, the OPEC+ alliance confirmed they will increase output by 400,000 barrels/day in March.
- The concern, however, is that some members have been unable to increase output as planned, and the group's production is running some 800,000 barrels below its target.
- The move is adding fuel to inflation, which in the US is expected to have reached 7.3% year-on-year in January, the highest since 1981.
- The question now is if Joe Biden will release more strategic reserves.

THE SECTORS WHICH DROVE GAINS LAST YEAR ARE LEADING THE WAY DOWN SO FAR

- Stocks of the information technology and consumer discretionary sectors, which account for nearly 40% of the S&P 500, are among the biggest losers so far this year.
- Real estate has been the worst-performing sector this year after being the second-best in 2021.
- Energy, which only represents 3.5% of the S&P 500, is the best-performing sector after leading last year too.
- Financials, which benefit from higher interest rates, are also in positive territory so far this year.



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.
Equities	Overweight	Slightly overweight in Asia ex-Japan and US markets.
Alternatives	Underweight	However, reducing the underweight in hedge funds.



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