INVESTMENT STRATEGY
WEEKLY VIEW

FAB
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THE FED WILL KEEP GOING UNTIL UNEMPLOYMENT RISES NOTABLY

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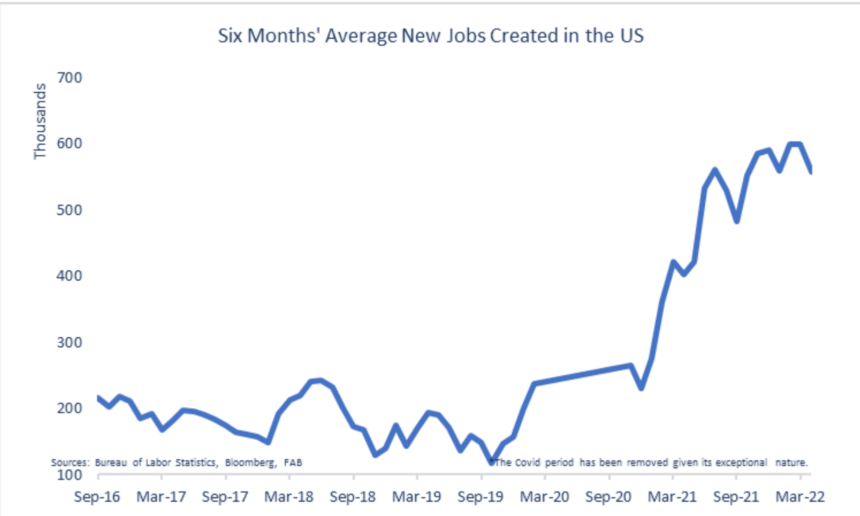
- The Fed hiked rates by 50bp and suggested a few more similar moves ahead
- Job creation in the US remains strong, so one of the Fed's mandates has been met
- Inflation is decelerating but remains near 40-year highs
- The changing outlook suggests investors should reduce risk in portfolios

Economists have plenty to worry about, from a conflict in Europe to China's Covid-zero policy. Concerns about the speed and magnitude of the Fed's rate hiking cycle, however, seem to be overshadowing all others in financial markets. The central bank delivered the 50 basis points hike everyone expected and signaled a few more. But high inflation and a strong jobs market suggest the Fed could take the benchmark rate all the way up to 2.75% by year-end, as futures markets show. This, amid a slowing Chinese economy and a shell-shocked Europe, could slow the US too. Earnings forecasts on Wall Street are only starting to reflect that, so there is a chance of further losses in stocks. High quality bonds, meanwhile, have become very attractive.

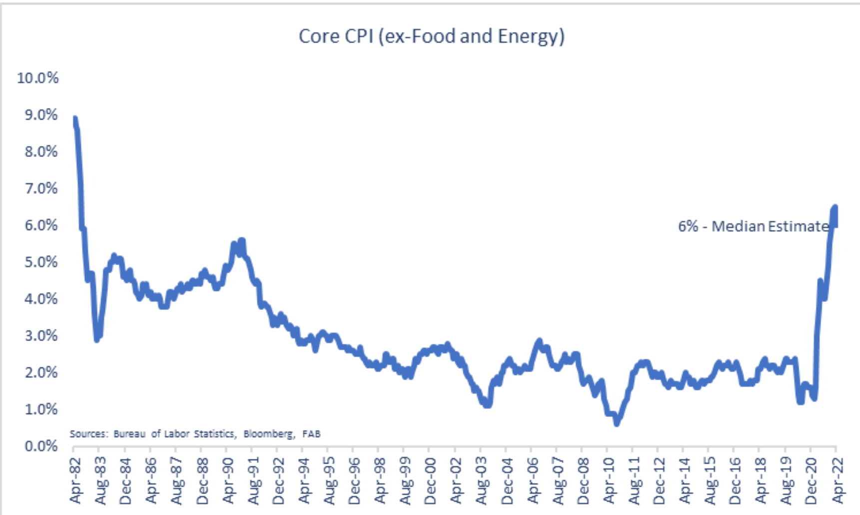
THE US CREATED 428,000 NEW POSTS IN APRIL, AS THE JOB MARKET REMAINS STRONG



- The six-month average of new jobs created, a measure the Fed watches, remains nearly four times higher than the long-term average.
- The unemployment rate stayed at 3.6%, below the 4% level the Fed considers neutral for the economy.
- Chairman Powell has said the job market is 'unsustainably strong', suggesting he wants to see the unemployment rate back above 4%.
- The yield on 10-year US Treasuries hit 3.2% today, as bond markets have mostly priced in the Fed's moves.

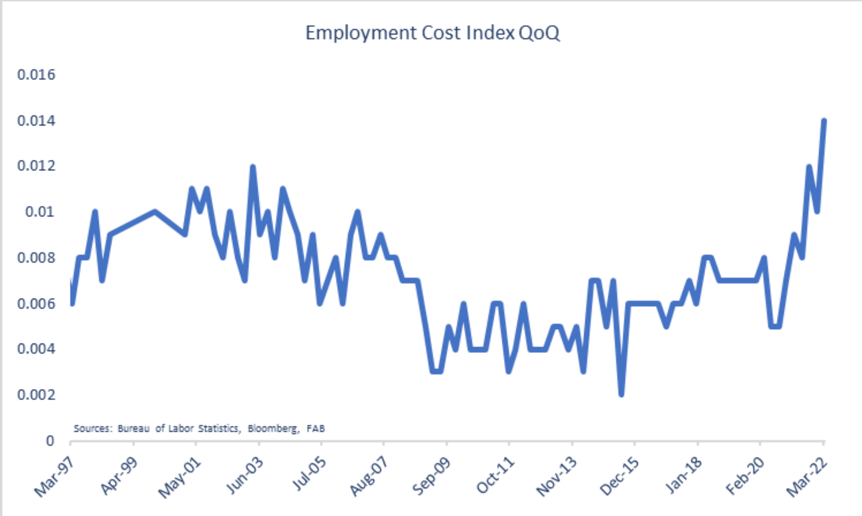
CORE INFLATION IS EXPECTED AT 6% IN APRIL, FAR HIGHER THAN THE FED'S 2% GOAL

- US inflation is the highest in nearly 40 years, even when food and energy costs are excluded.
- Some factors pushing the gauge higher, such as cars, are receding.
- Energy and food are still the biggest contributors to higher prices.
- While these may remain high, the room for further acceleration is limited, which could slow inflation.
- Still, core prices continue to rise at an accelerated pace and are likely to end the year above 3% barring a severe US recession.



THE EMPLOYMENT COST INDEX SAW THE BIGGEST QUARTERLY RISE IN ITS HISTORY

- The Bureau of Labor Statistics' employment cost index rose 1.4% in the first quarter compared to Q4, the fastest rise in the history of the index.
- Average hourly earnings increased 5.5% year-on-year in April, at a 3.84% annualized pace over March, according to the latest jobs release.
- Fast wage increases are one of the key factors that could make inflation 'sticky', according to Fed officials.
- With unemployment low, the Fed is likely to hike rates aggressively this year to stem wage inflation.

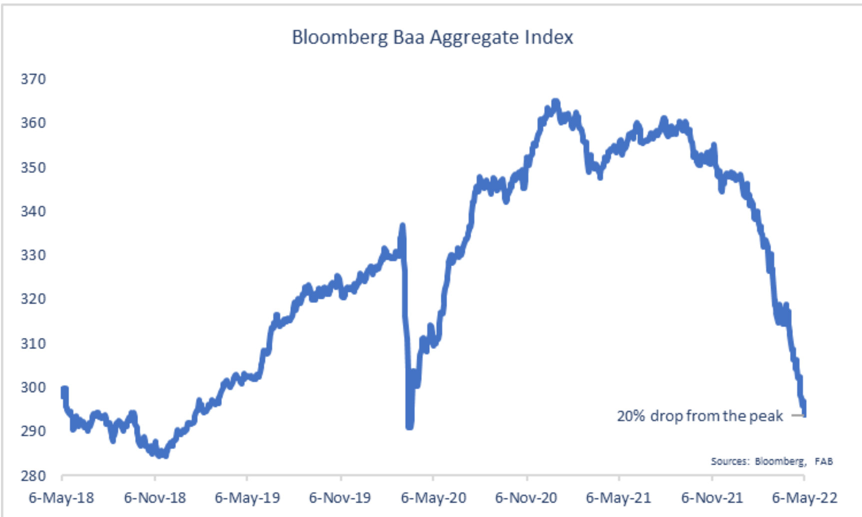


COMMODITIES HAVE RALLIED 116% FROM THEIR 2020 LOWS, BUT MORE IS POSSIBLE

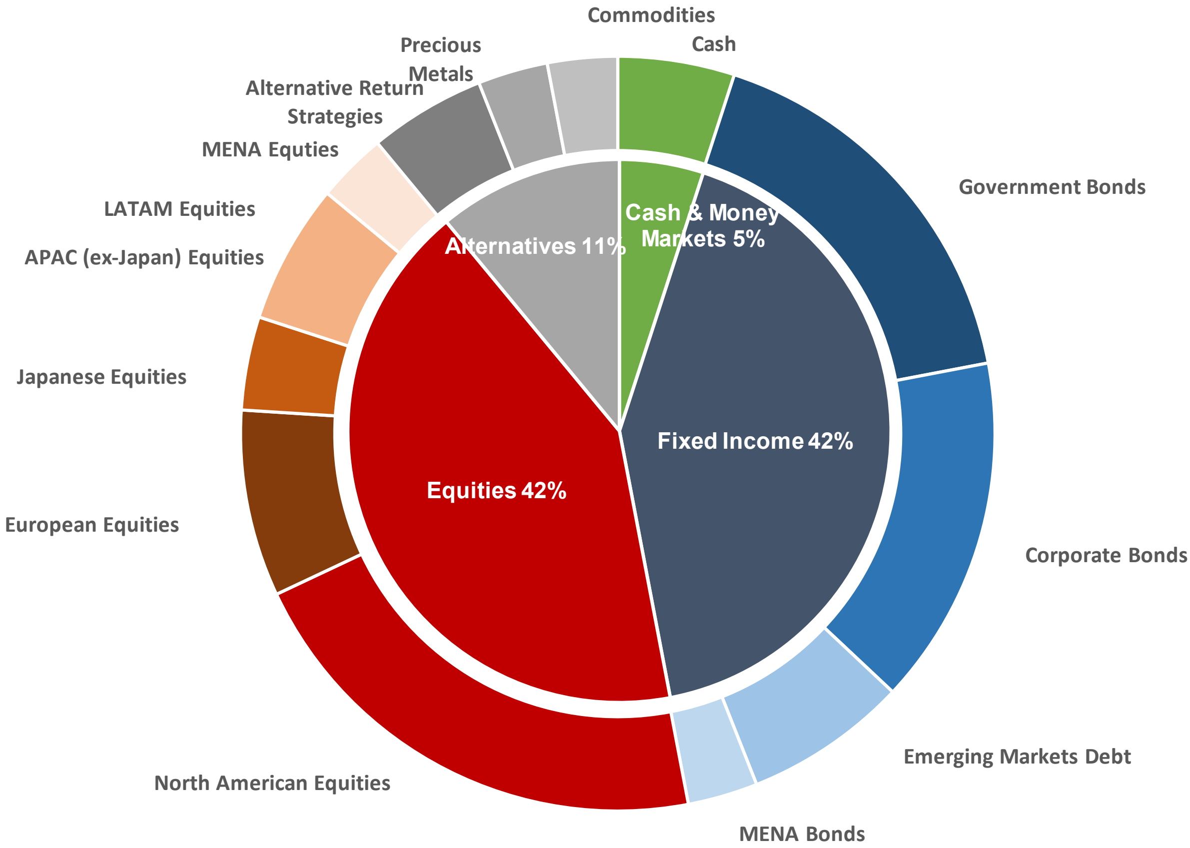
- The Bloomberg Commodities Index has gained 116% since it bottomed on April 27th 2020.
- More than 38% of the index is comprised by energy commodities, so the 450% increase in oil prices were a significant contributor to this rise.
- Adjusted for inflation, however, commodity prices in general remain very far from their all-time highs reached in 2007.
- Investors have been flocking to commodities as a way to hedge their portfolios against inflation.

HIGH QUALITY BOND PRICES ARE DOWN 20% FROM THEIR DECEMBER 2020 PEAK

- Corporate bonds rated BBB and AA were the worst-hit, while bonds rated A held up relatively better, given the heavy Chinese component of this rating bracket, which meant more buffer to weather the downside.
- The average yield on the Bloomberg Baa index is now above 4% for a 6.5-year duration, while the A-rated index is yielding more than 2% with a 7.6-year duration.
- If there is a global recession ahead, good quality bonds at current yields look relatively cheap.



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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