INVESTMENT STRATEGY
WEEKLY VIEW

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RISK ASSETS TAKE A BREATHER

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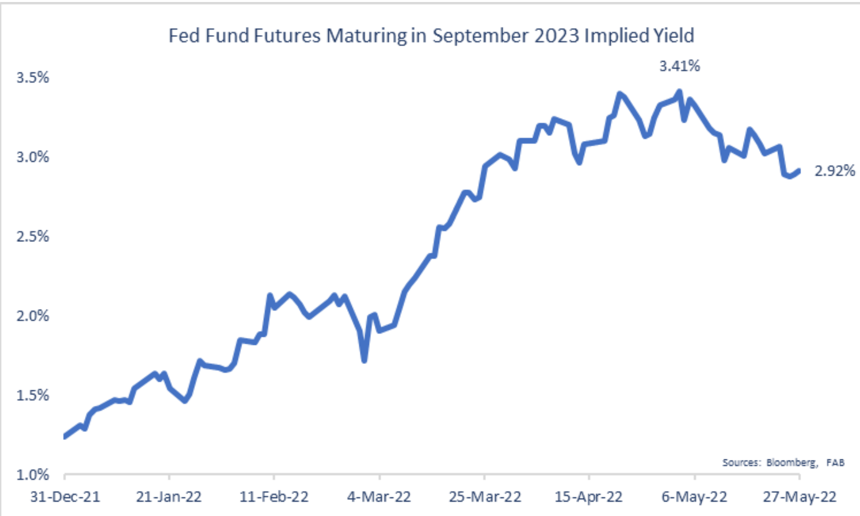
- US stock indices saw their biggest rally last week since November 2020
- German 10-year bond yields rose 10 basis points yesterday amid higher inflation prints
- Expected volatility in haven currencies has dropped from multi-year highs
- Brent crude prices overcome US$120/bbl amid optimism about a Chinese reopening

The US and China are the world's two biggest economies, so it is no wonder that the direction they take plays a key role in the performance of global markets. Investors had some reprieve on both fronts over the past 10 days. The Fed minutes last week left many under the impression that the US central bank is certain about hiking rates by 50 basis points in the next two meetings, but that there is a chance it may pause after that. This is different from the accelerated pace of hikes that was being priced by Fed fund futures. In China, Covid restrictions in Beijing and Shanghai are being eased, albeit slightly, after new cases dropped. There is one issue with this good news: it could turn on a dime, so investors still need to be cautious.

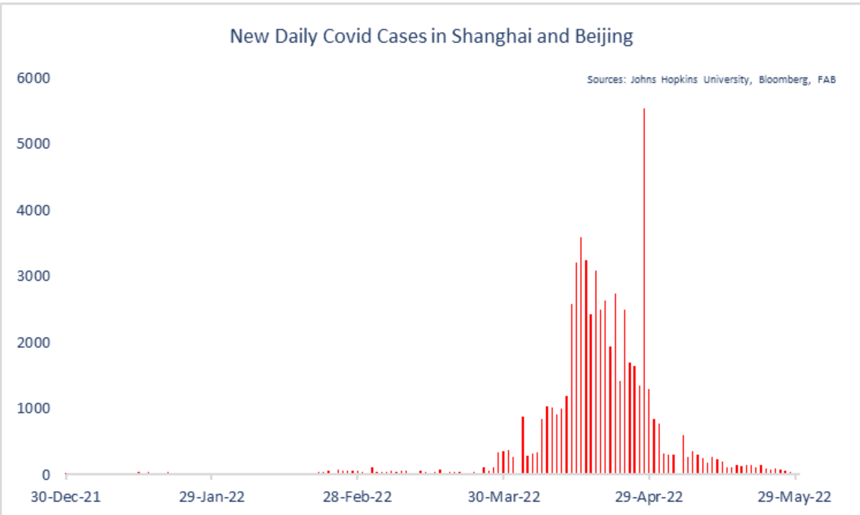
MARKETS ARE PRICING A LESS HAWKISH FED AFTER SEEING THE LATEST MINUTES



- Fed fund futures were pricing a peak in the US benchmark rate at 2.92% on Friday, down from 3.41% on May 6th.
- The expected end of this hiking cycle fell by 28 basis points between May 17th and May 27th.
- The minutes of the May meeting suggested policymakers want to hike rates by 50 basis points in the next two meetings, but are not sure about the pace of hikes after that.
- The forward guidance in the June 15th meeting will be key to determine whether this rally can continue.

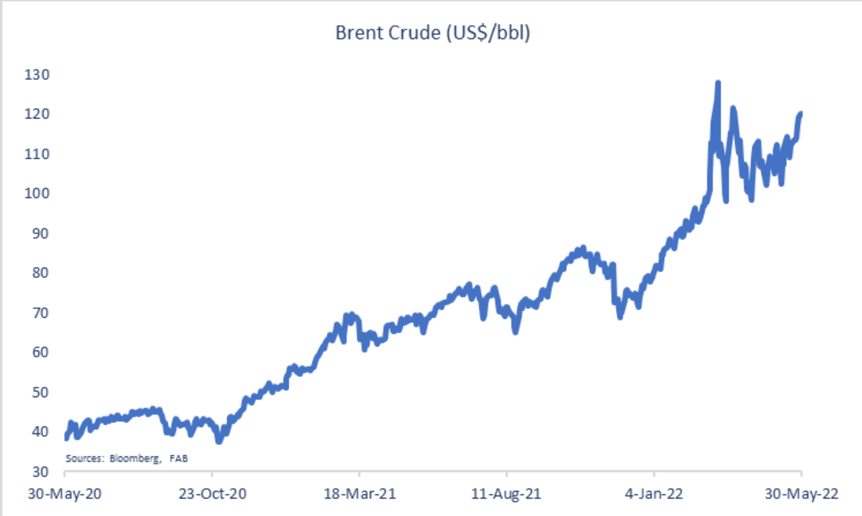
SHANGHAI AND BEIJING REPORTED FEWER THAN 100 DAILY NEW CASES LAST WEEK

- Shanghai announced tax rebates for companies and allowed all factories to reopen starting in June as it reported its lowest number of weekly cases since February.
- Beijing said the Covid outbreak is now under control and resumed most public transport and taxi services in three districts.
- The central government, however, has reiterated its commitment to a Covid-zero policy in the country.
- The risk of new outbreaks and ensuing lockdowns remains.

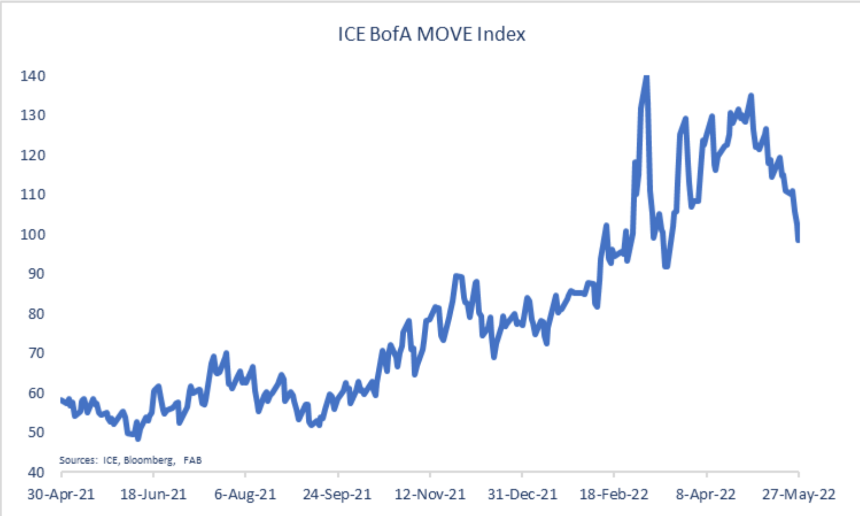


BRENT CRUDE CLOSED AT US$121.67/BBL AS MARKETS CHEERED CHINA'S REOPENING

- Oil prices rallied nearly 1.9% yesterday after Beijing and Shanghai announced they were easing curbs.
- China has started to increase fiscal and monetary stimulus, suggesting demand could spike in the world's second largest economy.
- A recovery in China could also benefit Europe, which has the country as its second largest trading partner.
- The global supply of oil has remained relatively steady as shale producers have failed to ramp up output, so any increases in demand can buoy prices.



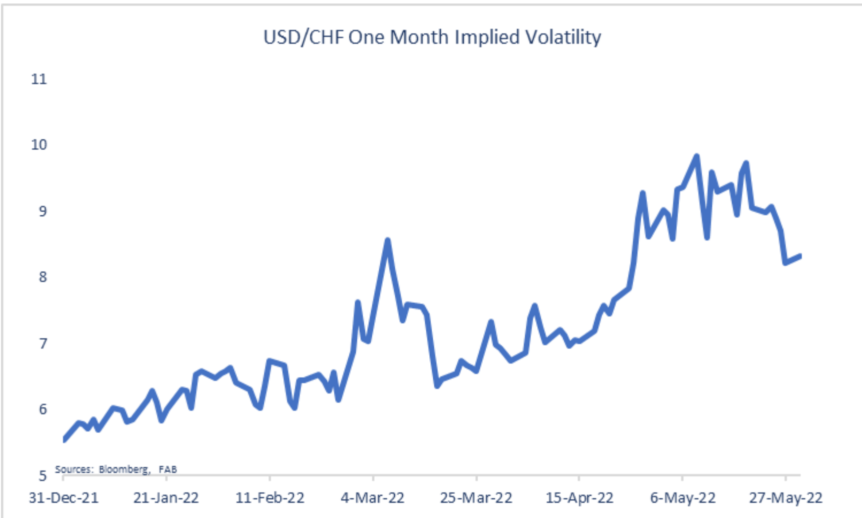
BOND VOLATILITY HAS COLLAPSED AS MARKETS SHIFT THEIR RATE HIKE EXPECTATIONS



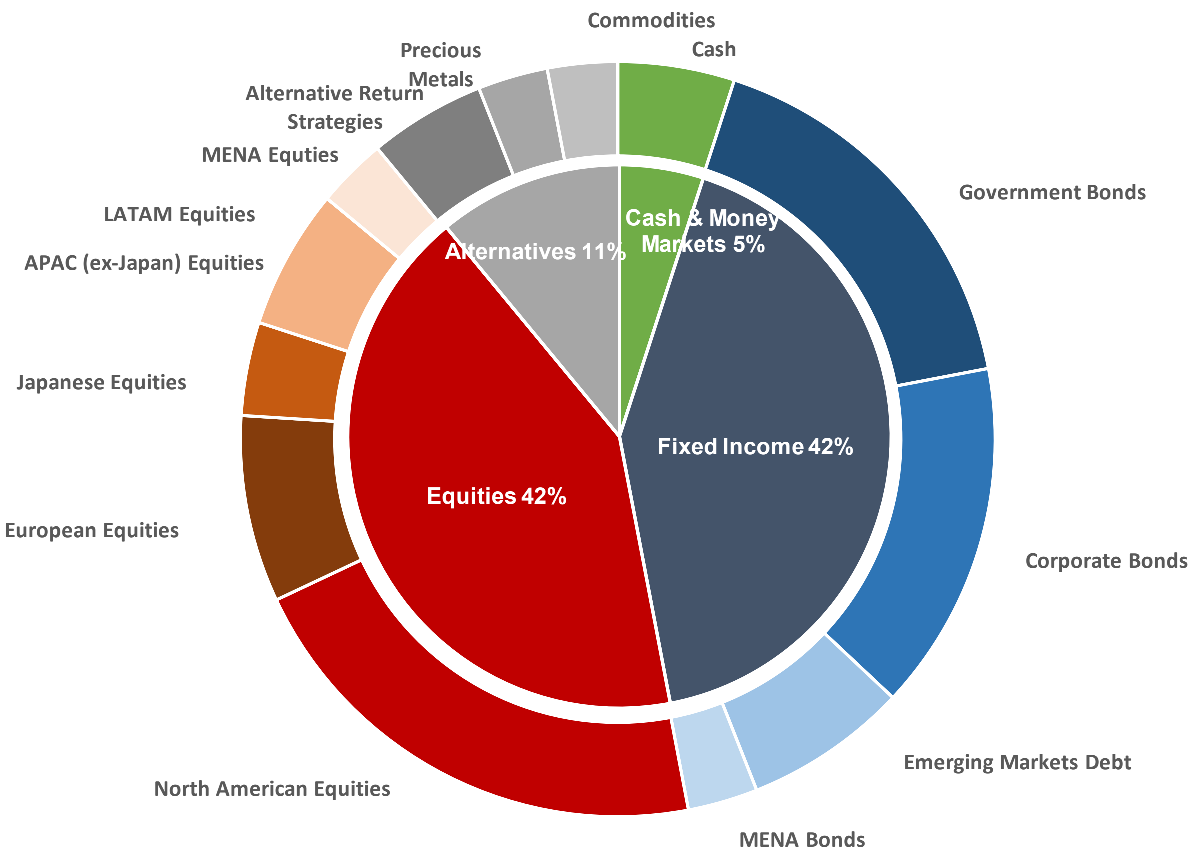
- The ICE BofA MOVE Index, which measures implied volatility in bond markets, dropped to 98.48 on May 27th from 125.22 on May 5th.
- In the same period, the yield on the benchmark 10-year US Treasury fell to 2.74% from 3.13%.
- There is a risk of increased volatility ahead as the Fed starts to run off its balance sheet this week, something that is also expected to reduce the liquidity in the bond market.
- Still, the potential downside for bonds remains relatively limited from here.

IMPLIED VOLATILITY IN SWISS FRANC OPTIONS HAS FALLEN AS HAVEN DEMAND WANES

- The one-month implied volatility on Swiss franc options had hit the highest since the start of the pandemic in early May.
- The 15.3% drop in expected volatility of the currency since May 9th coincided with a 2.5% drop in the dollar index.
- The Swiss franc hit the highest since 2019 against the US dollar on May 12th and has dropped 4.32% since.
- Less demand for haven currencies could support a faster recovery in emerging markets.



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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