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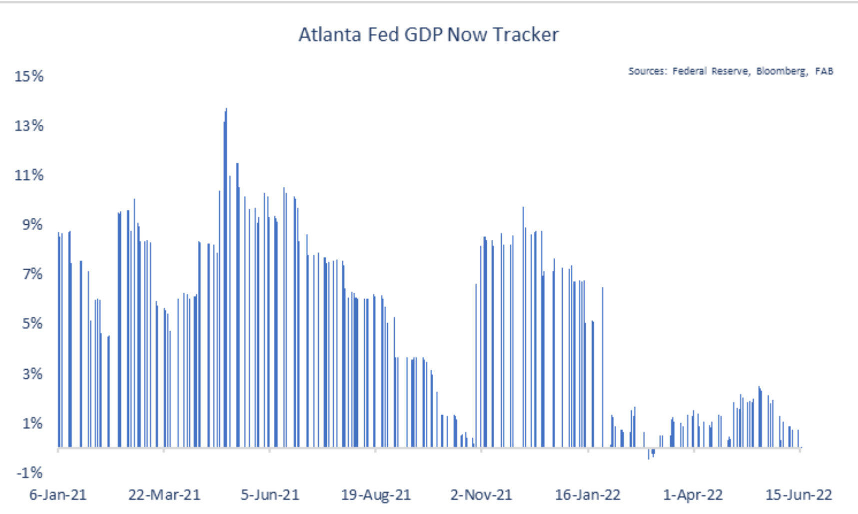
CENTRAL BANKS ARE NO LONGER PREDICTABLE

June 20th 2022

- The Fed delivered a 75bp hike after signaling 50bp as inflation expectations soared
- The Swiss National Bank unexpectedly hiked rates by 50bp
- The ECB announced emergency measures to stop peripheral spreads from blowing out
- Markets are contending with the possibility that central banks could create a recession

Last week proved investors can no longer be sure of what to expect from monetary policy. The Fed hiked by 75 basis points, after having signaled it would do only 50, following inflation expectations that came near historic highs. The Swiss National Bank hiked by 50 basis points in a completely unexpected manner. Just a week after indicating it would become more aggressive, the European Central Bank opted for capping yields of peripheral countries in an emergency meeting. All these surprises have helped to increase the volatility in financial markets. One thing is clear: central banks are reacting to economic data more quickly and strongly than before, especially inflation numbers, and markets will probably do so too in the coming months.

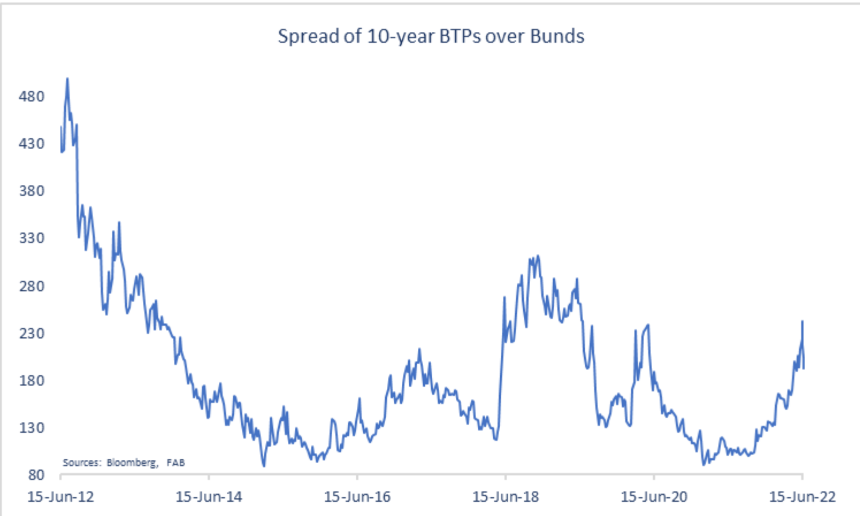
SOME GAUGES ALREADY SHOW THE US ECONOMY SLOWING TO A NEAR-STANDSTILL



- The Atlanta Fed GDP Now tracker already shows the US growth having completely stalled this quarter.
- If the world's largest economy contracts this quarter, it would technically be considered a recession, given that the country's GDP shrank by 1.4% in the first quarter.
- Retail sales fell in May as credit card debt returned to pre-pandemic levels and gas prices hit a record.
- More than 11.4 million unfilled job openings and low unemployment suggest the Fed will continue to hike.

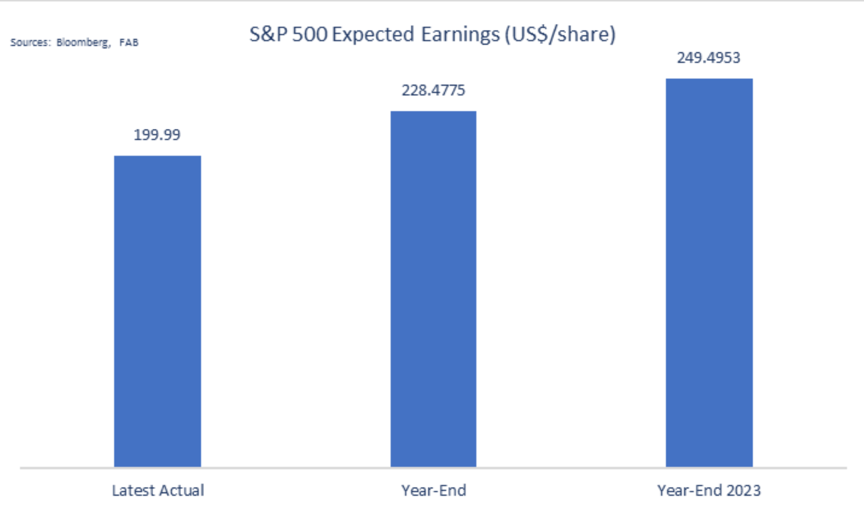
THE ECB DECIDED TO REINVEST SOME BOND MATURITIES INTO WEAKER EU MEMBERS

- The decision came just one week after the central bank indicated it could increase rates by 50 basis points in September.
- The decision came after the yield premium of 10-year Italian bonds over similar German debt increased by 50 basis points in two weeks.
- Some scholars have associated higher spreads with an increased likelihood of countries leaving the eurozone.
- Since the 2011 sovereign debt crisis the ECB has stopped these spreads from breaching 300 basis points.

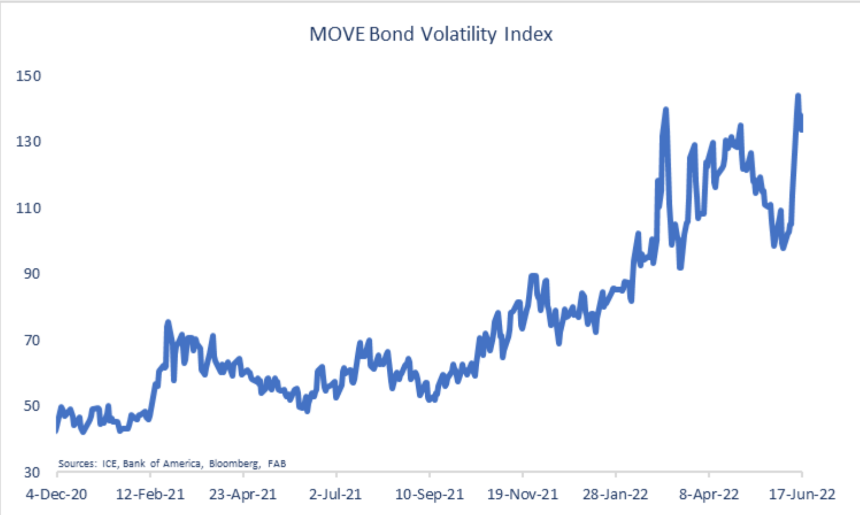


US EARNINGS ESTIMATES STILL REFLECT OPTIMISM ABOUT ECONOMIC GROWTH

- The median estimate of analysts surveyed by Bloomberg still sees the average earning per share in the S&P 500 increasing by 14.2% this year and another 9.2% next year.
- Over the past 30 years, S&P 500 earnings grew by an average of 15% when the US economy was growing and contracted by an average of 14% during recessions.
- The recent sell-off has pushed the S&P 500 down to 15.3x expected earnings for the next 12 months, but that still reflects profit growth.



BOND VOLATILITY IS NEAR THE HIGHEST SINCE THE 2008 FINANCIAL CRISIS

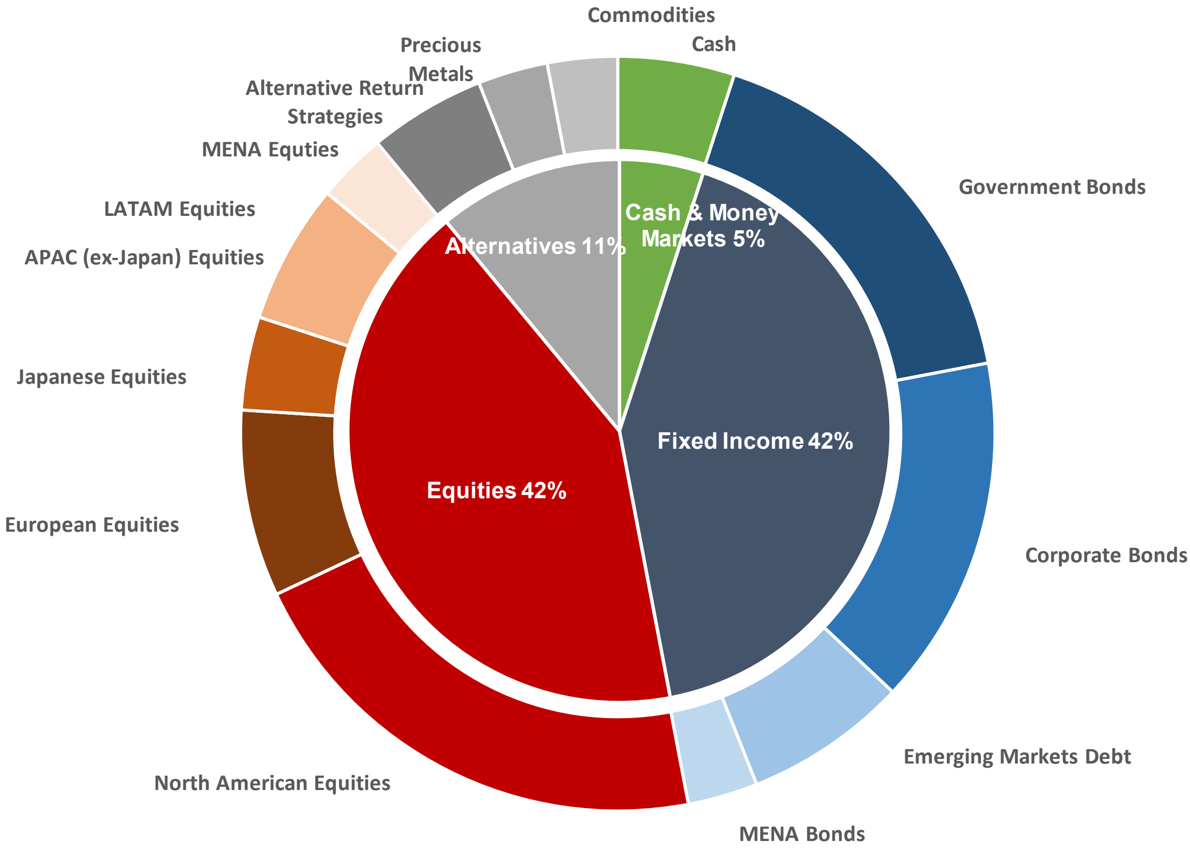


- Bond market volatility as measured by the ICE BofA MOVE Index hit 144.65 last week, the highest since 2009, if the March, 2020 sell-off is excluded.
- The yield on 10-year US Treasuries swung by as much as 28 basis points last Monday, while the two-year note moved as much as 35 basis points.
- The yield on two-year US Treasuries has increased by 27 basis points since the start of June, while the 10-year has increased by 49 basis points.
- Some long term highly-rated bonds are being traded at deep discounts.

THE JAPANESE YEN HIT ITS WEAKEST SINCE 1998 AS THE BOJ KEPT POLICY ULTRA LOOSE

- The Japanese yen traded at JPY135.47/USD last Tuesday, its weakest since October, 1998 — it closed at JPY135.02/USD on Friday.
- The Bank of Japan kept interest rates unchanged and remained committed to yield curve control in its policy-setting meeting last week.
- Some analysts had expected the BoJ could allow some policy tightening.
- The yen helped the dollar index rise by 0.53% last week — it touched 105.518, the highest since 2013 on Tuesday, before retreating to 104.7.

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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