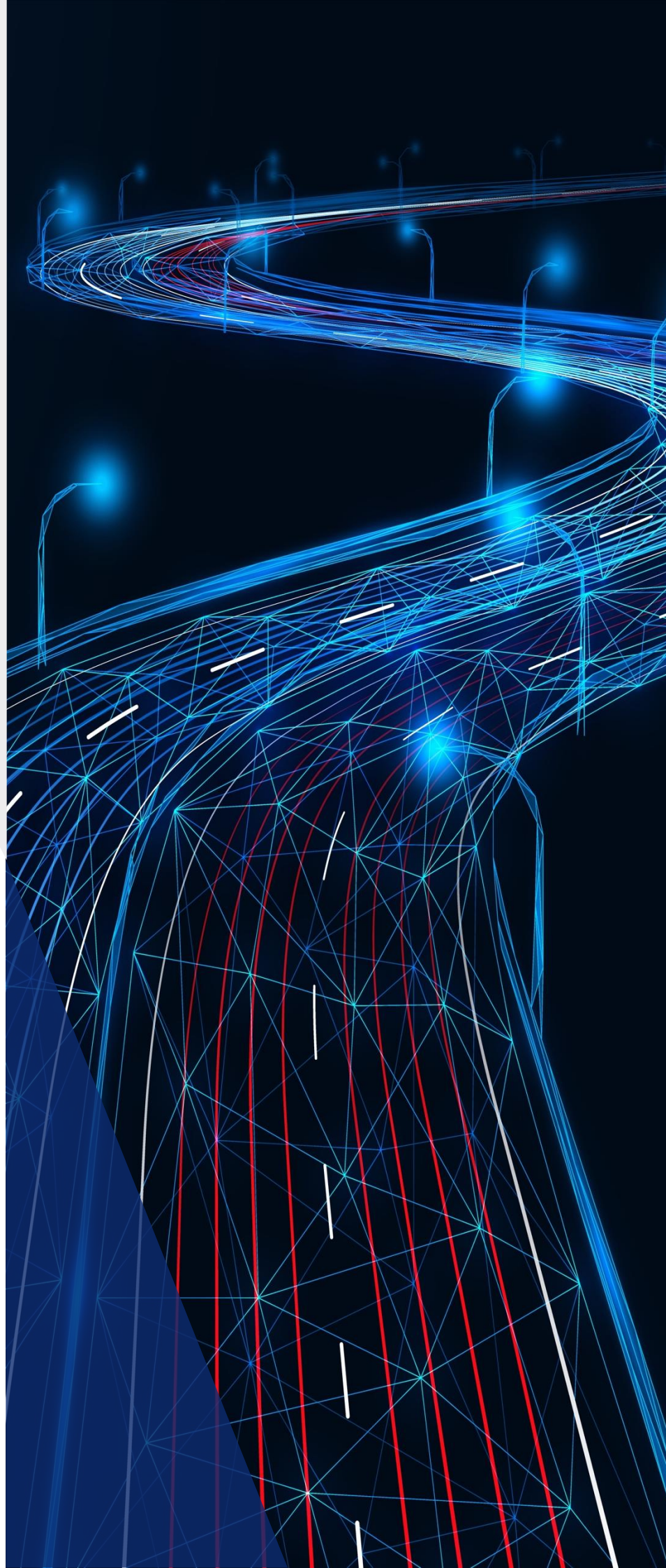


IN THE EYE OF THE INFLATION STORM

Market Update

July 2022



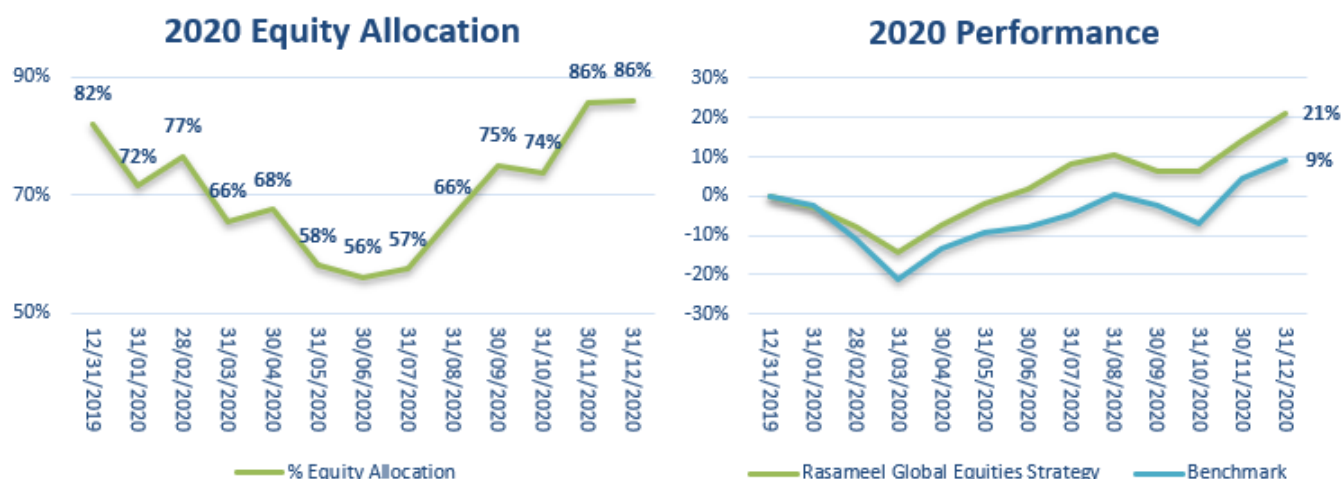
RASAMEEL'S MARKET UPDATE: JULY 2022

As reflected in our bearish June update, we reduced the risk exposures across the various strategies, adding to cash balances in June. We are very glad we did, given market performance over the month, with the S&P 500 down 8.3% and the MSCI World down 8.6%.

While our exposure to China equities performed well over the month, semiconductors, energy and commodities witnessed a sharp selloff on the back of fears over recession and a possible demand slowdown. This helped our Global Equities Strategy as we are underweight these areas, and it outperformed its benchmark by 4.5%, with the Strategy falling 6.1% vs 10.6% for the benchmark. The Multi-Asset Fund performed in-line with its benchmark for the month, down 5.8% vs 5.5% for the benchmark. The Disruptive Technologies Strategy marginally underperformed XT US over the month with the Strategy down 8% vs 7.5% for the benchmark. The Strategy outperformed the ARK innovation ETF which fell 9.5%. YTD to date though all strategies are outperforming.

The cash balances across the Strategies are 22%, 18.6%, 7% for Global, DT and Multi-Asset Fund respectively. As part of our risk management process, we are looking to cut back further on risk exposure, should certain technical and other indicators weaken further. Our primary focus is to preserve capital. When markets are down, we want to be down by less, so we have the dry powder to add when the market reverts.

2020 is a good example of this – we cut exposure when it became apparent that covid was going to cause significant economic pain and then added back as the various central banks and governments provided stimulus and turned the global economy around. Timing is never easy though and we cut back further than we should have, not expecting the market to come back as aggressively as it did. We were, however, able to claw it back as markets moved north.



Source: Bloomberg

There are a number of steps in our risk management process:





































- First and foremost, we look to buy low and sell high. We like stocks that offer value, reflected by an attractive price, adjusted for expected long term earnings growth. When stocks become expensive, we cut back exposure to them. We don't chase momentum. This hurt us in 2021 but has since helped us in 2022 as the markets sold off.

- Our second focus is to preserve capital at the portfolio level. When markets are down, we want to be down by less. We will cut exposure and add to cash balances, should we expect the market to weaken on the back of leading indicators, such as the ECRI leading index, and sentiment trending down.
- A further metric we use to drive our risk budget, is a simple technical indicator, such as 50 wma and 100wma. When the 50 wma cuts through the latter, we will look to reduce risk exposure and add to cash balances. The 50/100wma cross is not perfect as a leading indicator but has worked well in recent cycles.

Right now, the 50 wma is just above the 100 wma. What is of note though is that the markets have not rallied much on hitting what are usually key supports such as the 200wma in the case of the Nasdaq. Perhaps this will come, but so far it hasn't materialized.

MARKET UPDATE: 12TH JULY

The markets remained volatile in June, with equities showing some strength coming into June only to fall back sharply led by a higher than expected inflation reading in the US (8.6% YoY vs 8.3% E) and corresponding Fed rate increase of 75bps. At the time of writing, the S&P500 and Nasdaq are down 20% and 28% respectively YTD. The story is similar in most markets other than China where we are seeing strong relative returns.

Index	RMI	2Day	Value	Net Chg	%Chg	Δ AVAT	Adv/Dcl	P/E Est FY1	Est FY2	DvYld	%YtdCur
1) Americas											
11) DOW JONES			30981.33	-192.51	-0.62%	-11.02%	8 / 22	16.76	16.34	2.14	-14.74%
12) S&P 500			3818.80 d	-35.63	-0.92%	-17.41%	171 / 330	19.12	16.67	1.68	-19.88%
13) NASDAQ			11264.73	-107.87	-0.95%	-23.00%	1572 / 1786	37.70	23.52	19.99	-28.00%
14) S&P/TSX Comp			18678.64 d	-138.15	-0.73%	-16.84%	96 / 140	14.56	11.28	11.02	-14.64%
15) S&P/BMV IPC			47651.52 d	+281.63	+0.59%	-8.25%	18 / 17	13.54	12.34	11.45	-11.96%
16) IBOVESPA			98271.21 d	+58.75	+0.06%	+5.16%	58 / 32	5.36	5.75	6.03	-3.96%
2) EMEA											
21) Euro Stoxx 50			3463.78 d	-23.27	-0.67%	-9.35%	10 / 40	13.06	10.85	10.51	-29.08%
22) FTSE 100			7151.75 d	-58.11	-0.81%	-13.14%	17 / 80	16.44	9.47	9.51	-14.89%
23) CAC 40			6010.39 d	-33.81	-0.56%	-2.69%	9 / 31	13.13	10.27	10.40	-26.05%
24) DAX			12778.73 d	-126.75	-0.98%	-17.38%	7 / 32	11.39	10.51	9.92	-29.20%
25) IBEX 35			7975.50 d	-39.30	-0.49%	+65.25%	11 / 23	11.67	10.87	10.26	-19.45%
26) FTSE MIB			21242.04 d	-243.66	-1.13%	-3.28%	3 / 36	10.85	7.84	7.43	-31.64%
27) OMX STKH30			1947.95	-20.85	-1.06%	+36.61%	2 / 27	14.07	14.30	13.43	-31.30%
28) SWISS MKT			10943.84 d	-125.99	-1.14%	+19.07%	2 / 18	15.03	16.19	14.48	-20.85%
3) Asia/Pacific											
31) NIKKEI			26478.77 d	+142.11	+0.54%	-29.24%	147 / 69	18.85	14.79	13.87	-22.84%
32) HANG SENG			20849.91 d	+5.17	+0.02%	-9.93%	33 / 33	7.69	10.76	9.39	-11.49%
33) CSI 300			4321.46 d	+7.84	+0.18%	-19.08%	127 / 160	16.10	13.88	11.87	-17.27%
34) S&P/ASX 200			6621.56	+15.27	+0.23%	-17.74%	132 / 56	15.19	12.76	12.07	-17.18%







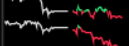














Source: Bloomberg

In the case of bonds, the story is more nuanced. The 2yr US Treasury yield rallied to 3.5% (remember this was only 15bps a year ago) on the back of a higher-than-expected inflation print and then fell back as economic data came in weak and the Fed did their 75bps tightening.

91) Bonds			92) Spreads			93) Curves						
Maturity			10 Year						Data Range			
Region	RMI	Security	Price	Chg	Yld	Chg	Yld		Low	Range	High	3M Chg
1) Americas												
10) United States		T 2 7/8 05/32	99-11+	+05	2.950	-1.8			2.699		3.473	+25.2
11) Canada		CAN2 06/01/32	90.035c	+0.382	3.183	-4.8			2.634		3.618	+54.9
12) Brazil (USD)		BRAZIL3 3/4 31	82.445c	-0.269	6.300	+4.4			5.294		6.509	+100.6
13) Mexico (USD)		MEX4 3/4 04/32	96.742	+0.077	5.178	-1.0			4.414		5.513	+76.4
2) EMEA												
19) United Kingdom		UKT4 1/4 06/32	119.280	-0.126	2.084	+1.2			1.658		2.650	+28.7
20) France		FRTR 2 11/32	102.590	+0.005	1.724	-0.1			1.258		2.382	+46.6
21) Germany		DBR 1.7 08/32	105.441	-0.002	1.126	+0.0			.761		1.764	+36.5
22) Italy		BTPS 0.95 32	81.863	-0.125	3.119	+1.7			2.370		4.163	+74.9
23) Spain		SPGB0.7 04/32	86.715	-0.088	2.225	+1.1			1.698		3.104	+52.6
24) Portugal		PGB1.65 07/32	94.915	+0.009	2.222	-0.1			1.756		3.090	+46.5
25) Sweden		SGB1 3/4 11/33	104.275	-0.320	1.340	+3.0			1.311		2.046	-11.0
26) Netherlands		NETHER0 1/2 32	91.393	+0.020	1.430	-0.2			1.034		2.111	+39.6
27) Switzerland		SWISS 0 1/2 32	98.276	-0.265	0.680	+2.8			.636		1.376	-7.2
28) Greece		GGB1 3/4 06/32	86.182	+0.239	3.414	-3.1			2.808		4.667	+60.7
3) Asia/Pacific												
29) Japan		JGB 0.2 06/32	99.703c	+0.040	0.230	-0.4			.203		.246	-.3
30) Australia		ACGB 1 1/4 32	82.260c	+0.209	3.382	-2.8			2.965		4.193	+31.5
31) New Zealand		NZGB 2 05/32	86.748c	+0.397	3.612	-5.3			3.392		4.265	+17.2
32) South Korea		KTB3 3/8 06/32	101.134	+0.250	3.277	-2.9			3.155		3.818	-1.7
33) China		CGB2.76 05/32	99.619	+0.023	2.804	-0.3			2.739		2.845	+5.1

Source: Bloomberg

Commodities were also volatile. The biggest move for us, was in the case of the energy markets. As the market started to price in a slowdown, oil futures dropped off by around \$10/bbl. The larger impact was seen though in the energy stocks which dropped off by c.20% (S&P500 energy index). That's a big move and, given we have the potential for prices to go much higher due to the conflict in Ukraine and the potential imposition of sanctions on Russian oil, was a little surprising.

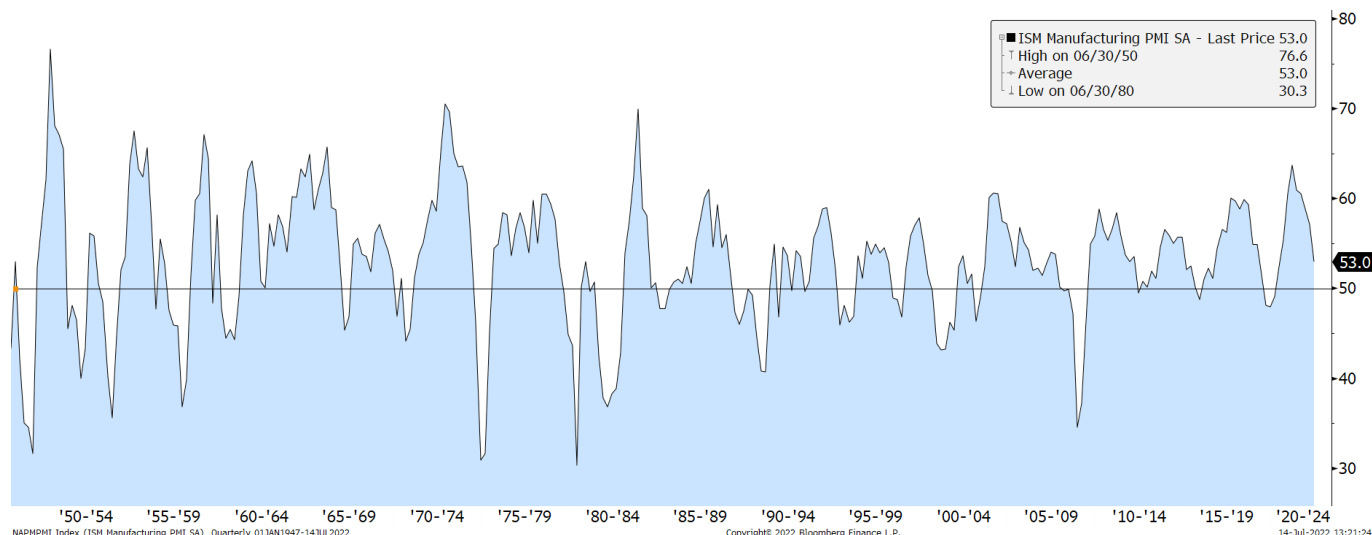
Commodity	2Day	Price	Norm Chg	%Chg	Δ AVAT	Time	%YTD	%YTDCur
1) Energy								
2) NYM WTI Crude		96.83	+0.99	+1.03%	-0.83%	10:38	+28.75%	+28.75%
3) ICE Brent Crude		100.54	+1.05	+1.06%	+25.98%	10:38	+29.26%	+29.26%
4) ICE ARA Gasoil		1,094.25	+20.25	+1.89%	-31.88%	10:38	+64.06%	+64.06%
5) NYM NYH Gasoline		326.23	-0.23	-0.07%	-47.53%	10:36	+46.39%	+46.39%
6) NYM NYH Heating Oil		370.68	+4.42	+1.21%	-61.90%	10:37	+59.08%	+59.08%
7) NYM HH Nat Gas		6.26	+0.10	+1.54%	-26.63%	10:38	+67.77%	+67.77%
8) ICE NBP Nat Gas		244.02	+21.78	+9.80%	-15.38%	07/12/22	+43.00%	+25.71%
9) Metals								
10) LME Aluminum		2,360.00	-19.50	-0.82%	--	07/12/22	-15.94%	-15.94%
11) LME Copper		7,354.00	-230.50	-3.04%	--	07/12/22	-24.35%	-24.35%
12) Spot Gold		1,725.02	-0.99	-0.06%	--	10:48	-5.70%	-5.70%
13) DCE Iron Ore		714.00	-7.00	-0.97%	-58.62%	10:12	+24.63%	+17.87%
14) LME Nickel		21,374.00	-465.00	-2.13%	--	07/12/22	+2.97%	+2.97%
15) Spot Silver		18.99	+0.05	+0.26%	--	10:48	-18.54%	-18.54%
16) SHF Steel Rebar		3,892.00	-105.00	-2.63%	+172.73%	10:00	-13.59%	-18.28%
17) Agriculture								
18) CME Live Cattle		141.27	+0.85	+0.61%	+20.02%	07/12/22	-1.60%	-1.60%
19) ICE Coffee		205.35	-7.90	-3.70%	-60.87%	07/12/22	-7.45%	-7.45%
20) CBT Corn		595.25	+8.75	+1.49%	-94.51%	10:37	+24.74%	+24.74%
21) ICE Cotton		88.95	-1.89	-2.08%	+125.00%	10:36	-15.80%	-15.80%
22) CBT Soybeans		1,348.00	+5.00	+0.37%	-98.16%	10:38	+23.01%	+23.01%
23) ICE Sugar		18.81	+0.12	+0.64%	+26.02%	10:38	-0.37%	-0.37%
24) CBT SRW Wheat		831.00	+16.75	+2.06%	-98.06%	10:37	+3.99%	+3.99%

Source: Bloomberg

Recent data is increasingly confirming our expectation of weaker growth in 2H22. And lower inflation prints as well. Which will in our view cause the Fed to go on hold.

The Institute for Supply Management (ISM) data has really fallen dramatically, reflecting the view of participants in the survey that economic conditions are going to worsen dramatically.

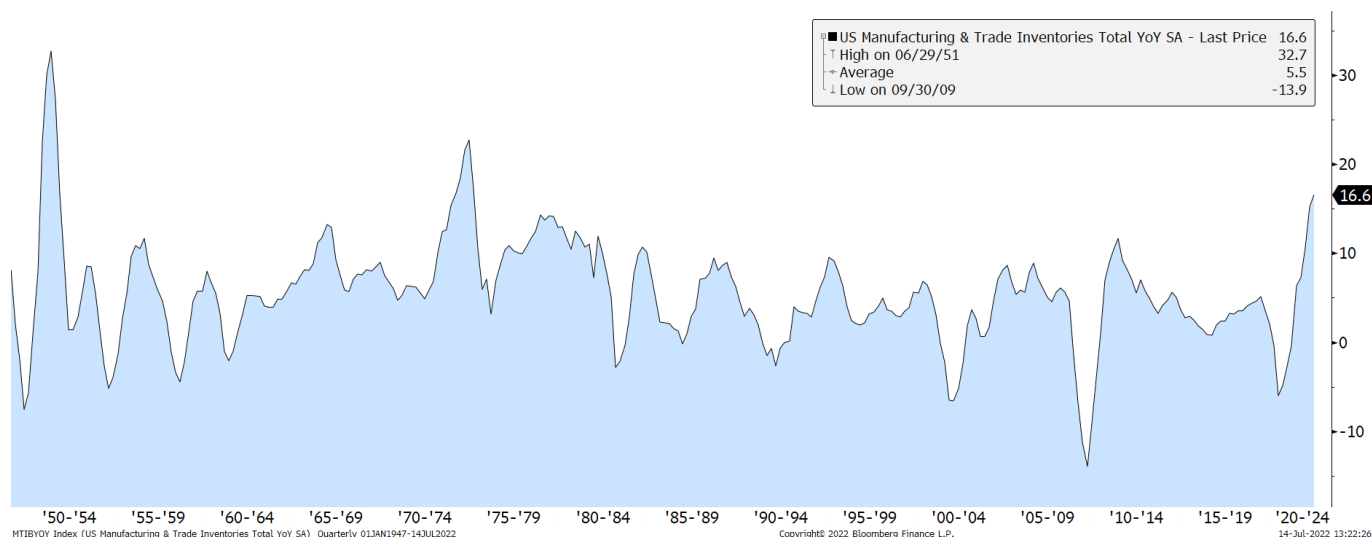
Chart – US ISM Manufacturing index



Source: Bloomberg

Another interesting data point to track, is inventory levels. From the situation of supply chain disruption and issues getting hold of goods out of China, due to port closure etc, we are very quickly shifting to a period of excess inventory levels.

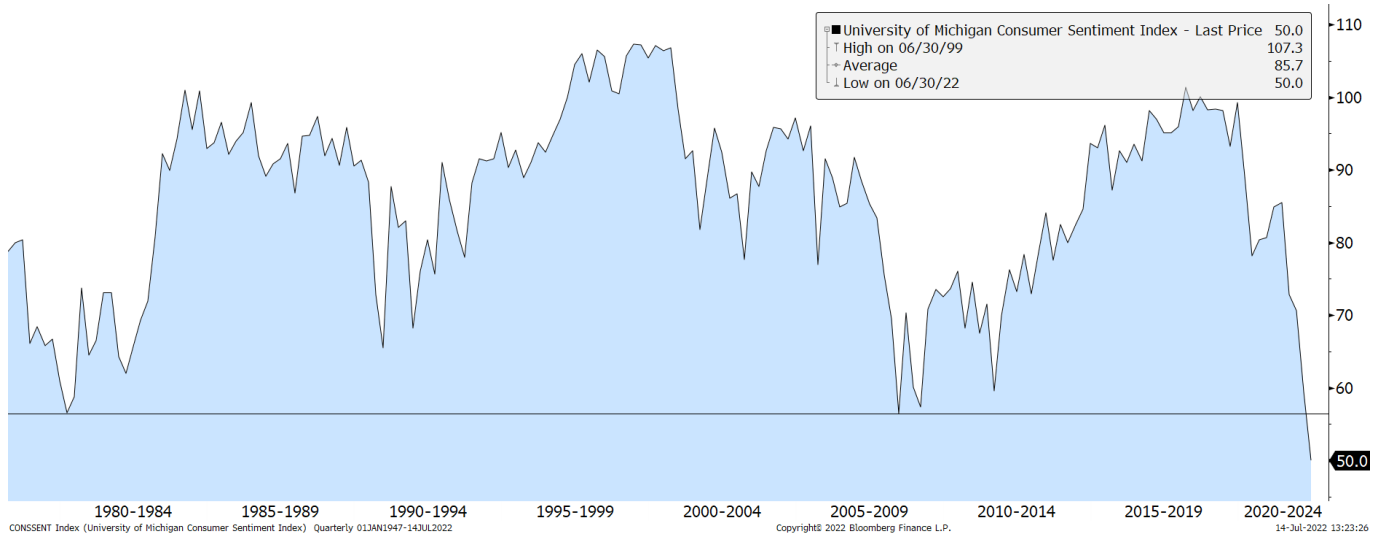
Chart – US Manufacturing and Trade Inventories YoY



Source: Bloomberg

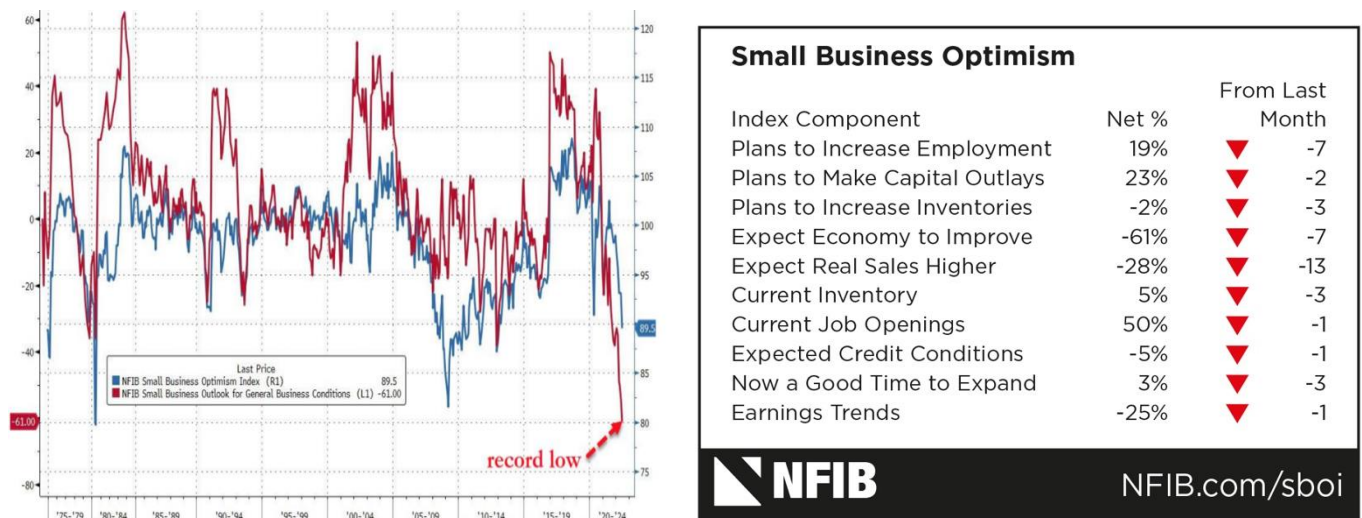
Consumer confidence has also fallen off dramatically. This is not always a leading indicator and is often correlated to the underlying health of the market and the economy. The fact that we have seen such a large drop off, whilst the economy is still relatively firm is reflective perhaps of the strains being felt currently due to supply chain disruptions, rising inventories and higher prices.

Chart – US Consumer Sentiment index

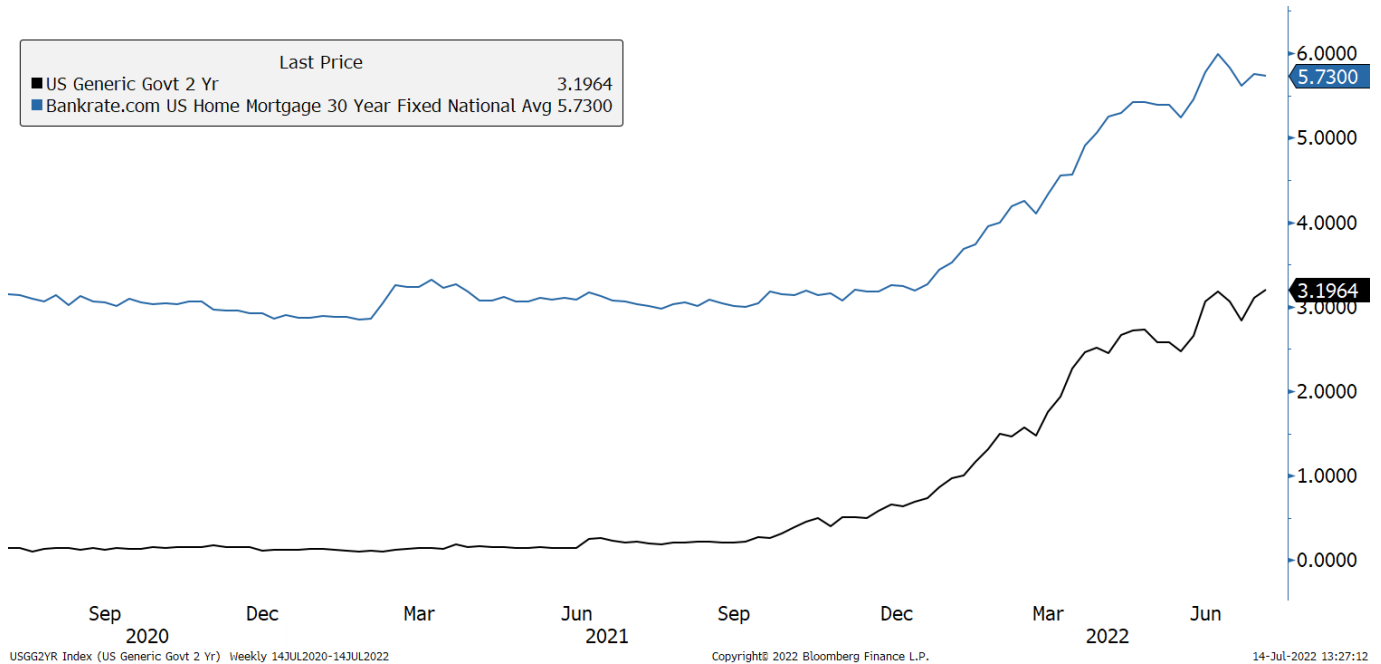


Source: Bloomberg

Similarly, the US Small Business Optimism Outlook crashed to new lows. With all of the indicators being down.

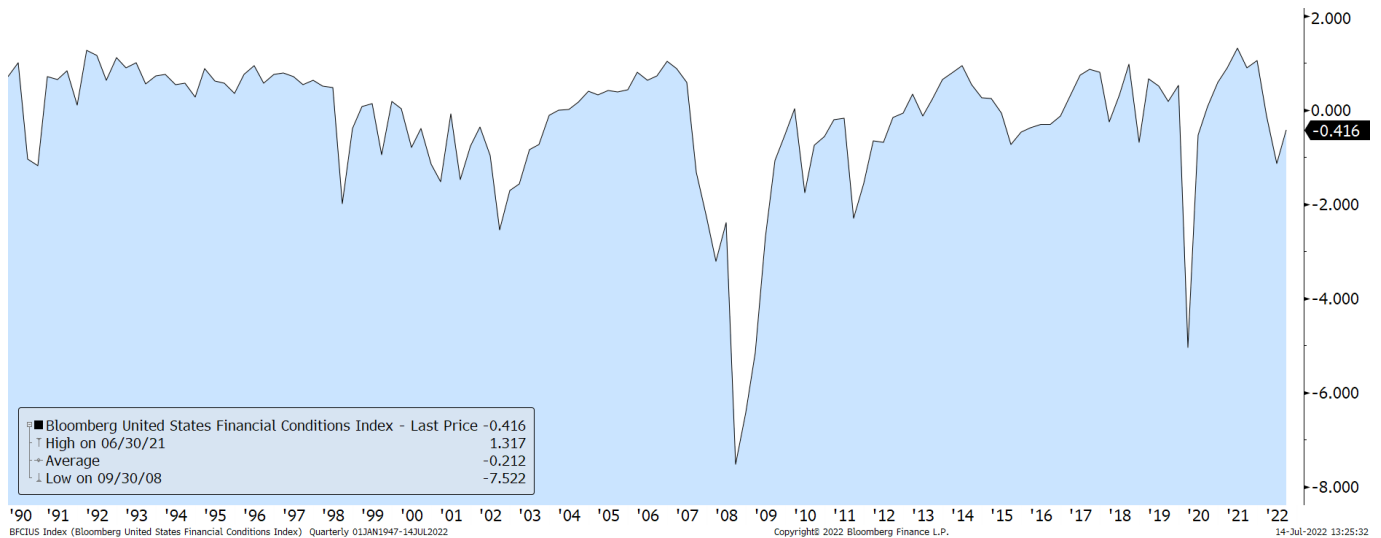


The key factor driving these lower data prints is higher than anticipated inflation and the short end of the yield curve has risen in unison. The environment has changed precipitously and is about to get very difficult for many. Higher borrowing costs impact margin debt, corporate borrowing costs, balance sheets mortgage costs etc. We have in one year gone from an environment where debt was practically free, to one which will rip apart any weak balance sheets and do so very quickly.

Chart – US 2-year yield and 30 year mortgage rate


Source: Bloomberg

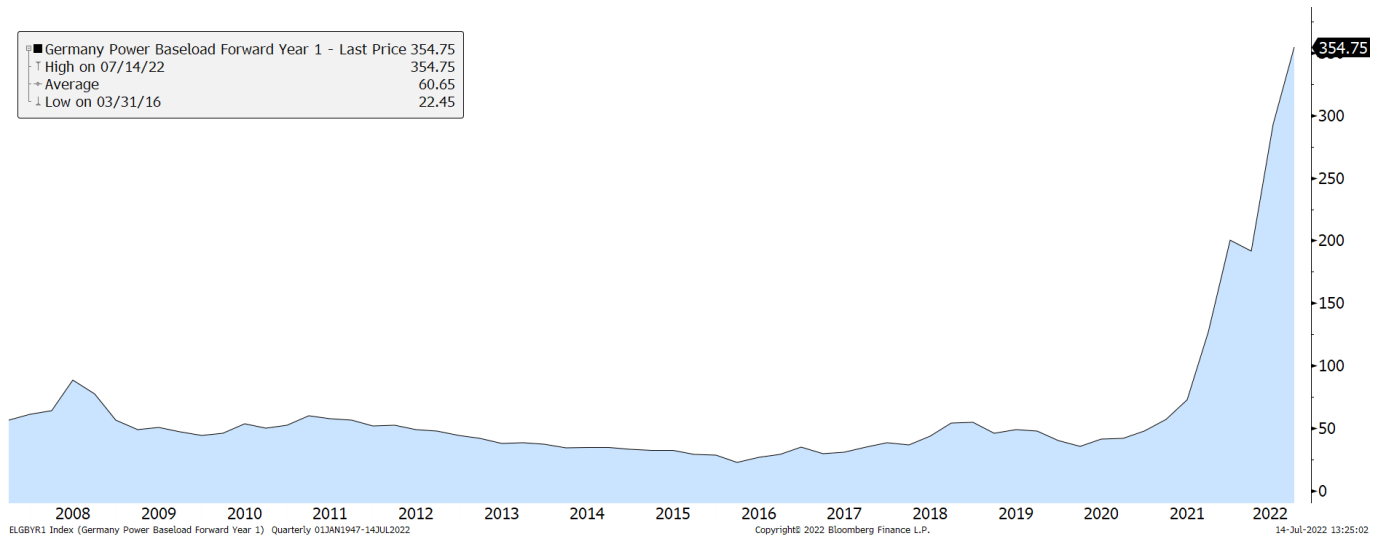
Another related data point which reflects the strains in the economy is the Financial Conditions index, which has worsened significantly. A reflection of the rising yields and increase in financial stress in the economy.

Chart – Bloomberg US Financial Conditions index


Source: Bloomberg

In the case of Europe, a lot of the data looks similar if not worse. We are concerned for Europe given the potential for the crisis in Ukraine to expand outwards and for Europe to find itself having to undertake load shedding as a result of simply not having enough energy to meet its needs. Over 50% of Germany's natural gas needs are filled with Russian gas.

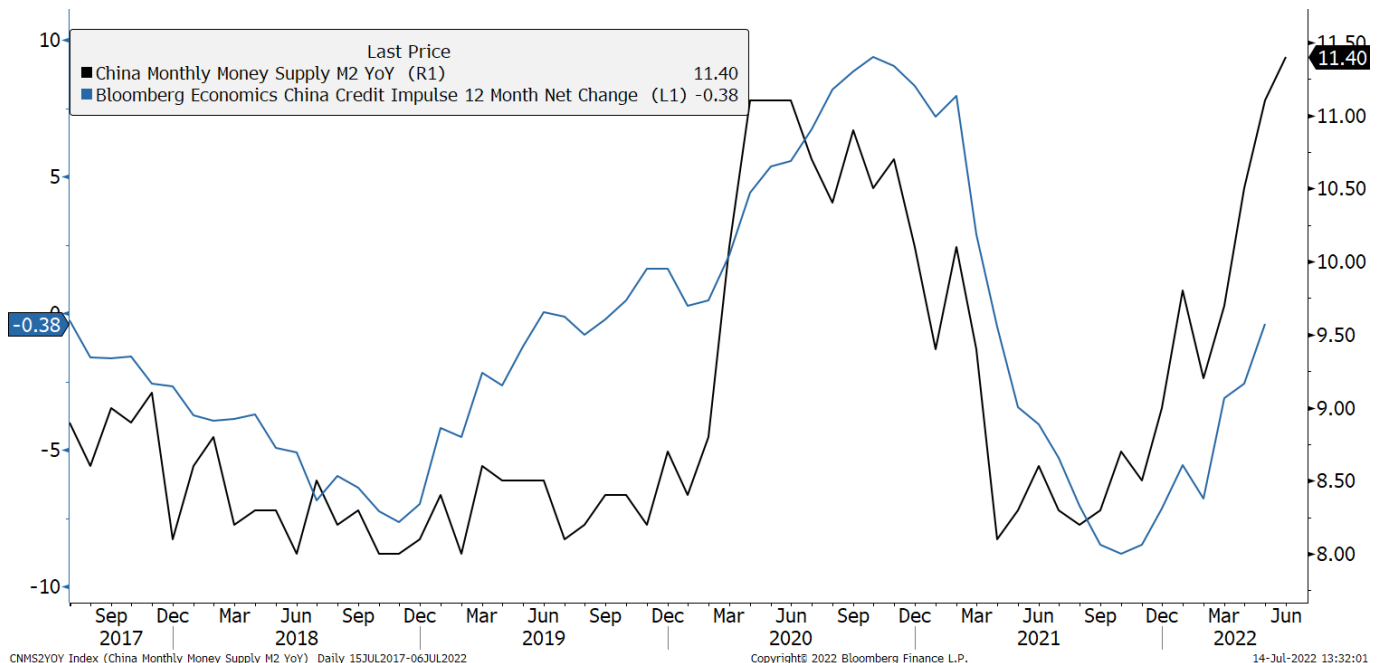
Chart - Germany electricity prices.



Source: Bloomberg

China is one market we are slightly more hopefully off. Given the weakness in the real estate sector over the last few quarters we have been expecting China to do more, in terms of providing liquidity and stimulus. This is finally starting to come through, as reflected by money supply data and the credit impulse.

Chart - China M2 Money Supply and Credit Impulse



Source: Bloomberg

So, what does all this mean for the markets going forward?

As we highlighted in our June update – [found here](#) – we believe economic data is going to weaken. And do so very quickly. So, as we move through 2H22, we anticipate inflation will drop off allowing the Fed to pause most likely by September. As we highlight in last month's update, they are stuck between a rock and a hard place.

If they tighten too much, they will cause a system collapse, something akin to 2008. Except worse, given the increased level of debt globally. We know this and they for sure know it. So, if they do raise rates aggressively all the way to 5% or above, it will be with the intention of breaking the current heavily indebted system.

We think the latter is unlikely and, like we have seen in prior periods of slowdown, the Fed will come off the brake and very shortly thereafter re-initiate quantitative easing. Why? **Because that's the only thing they can do.** At least if they want to keep the current financial system going.

So, the Fed will, we expect, need to stabilize financial conditions, most likely in our opinion around the 4th quarter of this year. Given most recent inflation print – pause most likely by September.

While the economy would weaken, we would expect them to avoid a significant economic down draft, with all the contagion that that would cause. To achieve their aim, further financial repression will, however, be forced onto the populous. Expect to see negative real rates into the future. To have universal basic income being developed to the next level and feeding into the inevitable Central Bank Digital Currency.

That will come in time, and we should be very aware that it will likely be rolled out with digital IDs and control mechanisms, which will give the government, via the central bank, the ability to unilaterally control the money supply, more importantly, your money. The individual's CBDC account.

This is something that does concern us, as it may lead certain members of the government to favor the breakage of the current financial system, so that out of the ashes a new financial system can be born with CBDC at its core. So, one needs to be cognizant that there are many forces at work here and that the least likely outcome may in-fact play out.

Asset allocation considerations:

With the above in mind, we expect:

- Short to long dated bonds should start to price in a slowdown. Hence yields should start to roll off driving bond prices higher. We recently added to our Seco'44 position with this expectation and will look to add further, should our expectation be confirmed.
- Gold is holding up reasonably well given the circumstances and we expect will rally on the Fed coming back in with QE. So, we hold and would look to add on weakness.
- Industrial metals and those asset classes sensitive to a slowdown will likely fall further as the slowdown becomes more apparent.
- Earnings downgrades are likely to start kicking in and equities likely have further downside from here. Once we are on the other side of the Fed tightening, we expect equities will catch a bid, particularly those related to the disruptive technologies space which are more sensitive to real rates.

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