Flash Market Update

March 12th, 2023

RASAMEEL

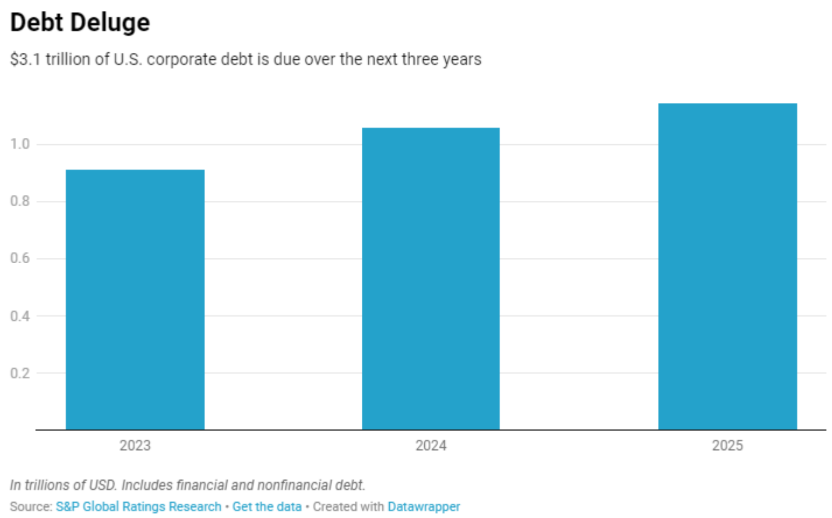
Flash market update: Sunday 12th March

In our recent report, we made the argument of staying defensively positioned as the US equity market was likely, in our view, to make lower lows. Indeed, we highlighted that the Fed was likely to raise rates right into a slowdown and would tighten 'until something breaks'. Well, something just broke!!

On Friday the US suffered its 2nd largest bank collapse. Silicon Valley Bank (SIVB US a), bank with over USD 200bn in assets, suffered a bank run and the stock was halted. This is the 2nd bank to fail in one week, with Silvergate Capital (SI US) going into liquidation just a few days earlier. The S&P ended down 4.5% for the week.

The collapse of SIVB will affect many, from retail clients to crypto stablecoins, and over 90% of its deposits do not fall under the US deposit insurance scheme. Many companies will also be impacted and we believe that some 25% of Roku's cash is deposited with SIVB. Stablecoin USDC broke its USD peg as it revealed it had USD3.3bn exposure to SIVB. Other banks in the US are also now coming under scrutiny and First Republic Bank is the next to be rumored to be facing a potential run of client deposits on Monday.

While the liquidation of SIVB may not itself cause significant contagion in the US financial sector, and many depositors will eventually be made close to whole, it will cause investors to think twice about investing in risk assets, such as equities. Especially, with Fed rates now closing in on 5-5.25% in one of the steepest rises in rates ever. Of note, is that there are some USD1trl in corporate debt that will need to be rolled over each year for the next few years.



With borrowing costs rising from 2-3% to 7-8%, we expect that it will put pressure on many company balance sheets and we are only at the start of this process.

The market has ignored high US equity valuations, weaker earnings and other risks for the last few months and we believe it will now start to reprice risk. We earlier indicated that the S&P could fall to 3,100 on the back of weaker earnings and a more normalized valuation of 14x. We stick by this. Unless of course the Fed goes all weak at the knees and pivots early, but we think it's too early for them to do so without losing all credibility.

What does this mean for our Strategies:

We have been advocating a defensive positioning to risk assets for some time and are well positioned for weakness in the equity markets, holding 25% cash in Global Equity Strat and 30% in DT. In the Multi-Asset Strategy we are underweight equites (44%), overweight defensive areas of the market such as healthcare and are now slightly overweight sukuk (43%). We are also very underweight US equities, across all our Strategies.

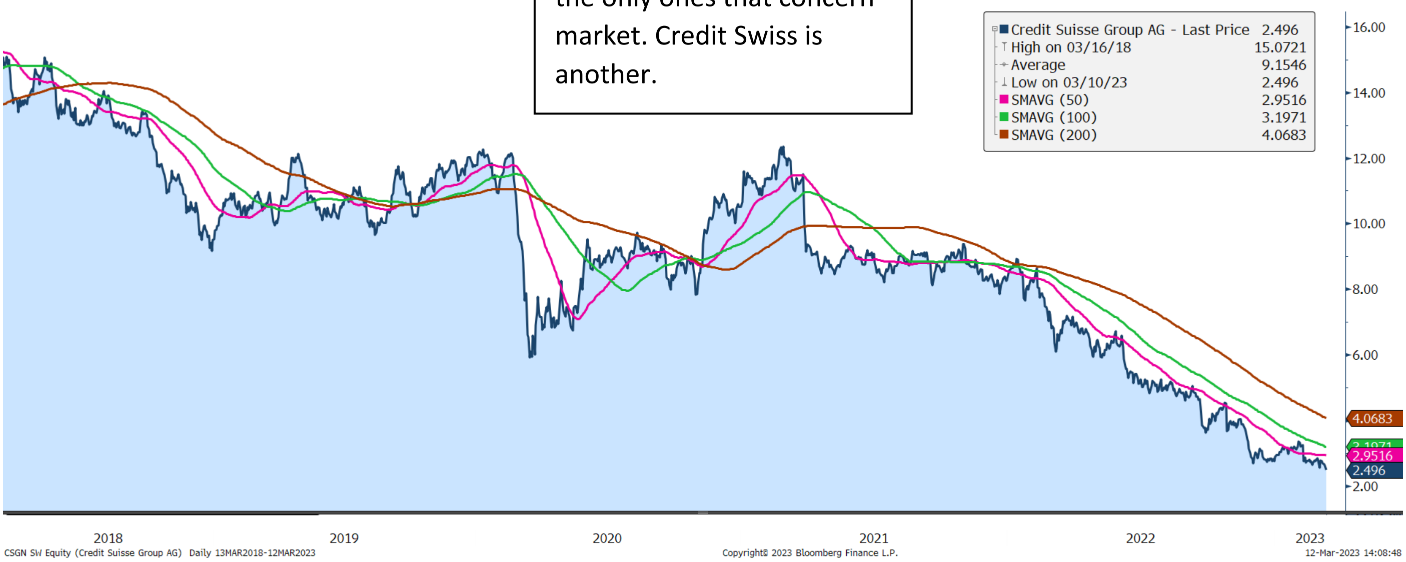
Of note is that **sukuk were up last week and MTD, in a market that saw equities down. We have seen significant compression in yields in mid and long duration US government bonds. So, the sukuk strategy is working well and still offers, in our opinion, plenty of upside.**

We also don't have exposure to smaller US banks and indeed the shariah compliant nature of what we do reduces exposure to any potential direct contagion from the SIVB liquidation on the financial sector.

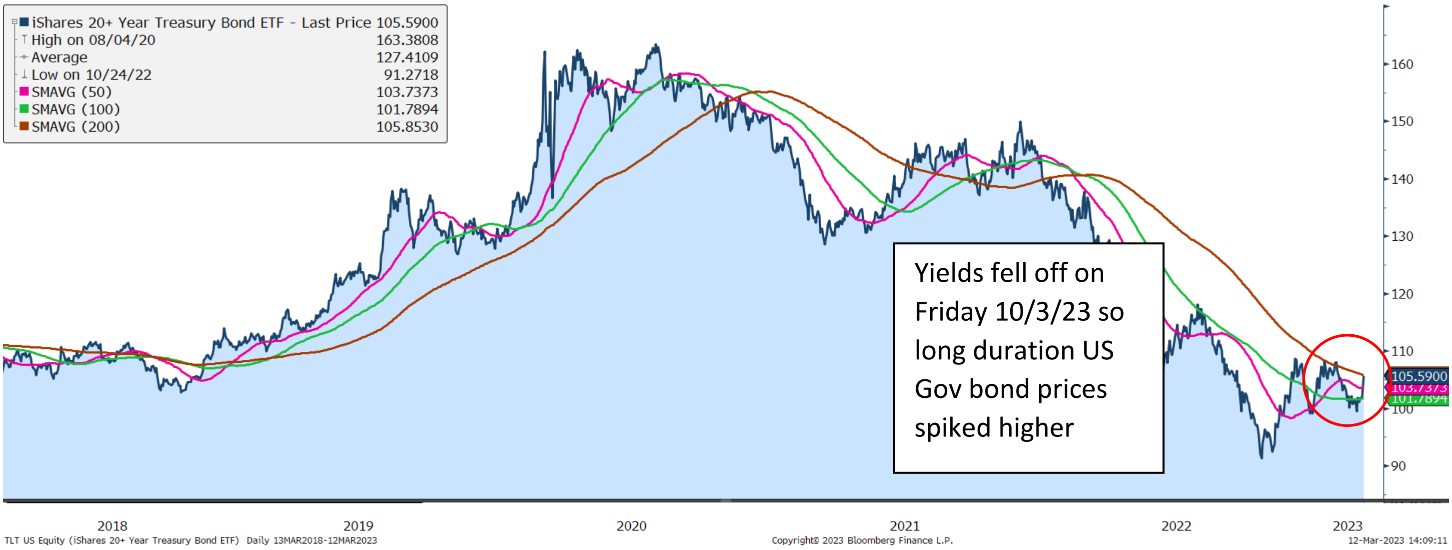
Our underlying expectation is that risk assets in general, which includes equities, should be lower over the year due to weaker earnings and a lower valuation multiple. What we have seen in the last few days may be the start of the next, and hopefully final, leg lower and we feel well positioned for it.

Credit Suisse Stock Price – 5 years

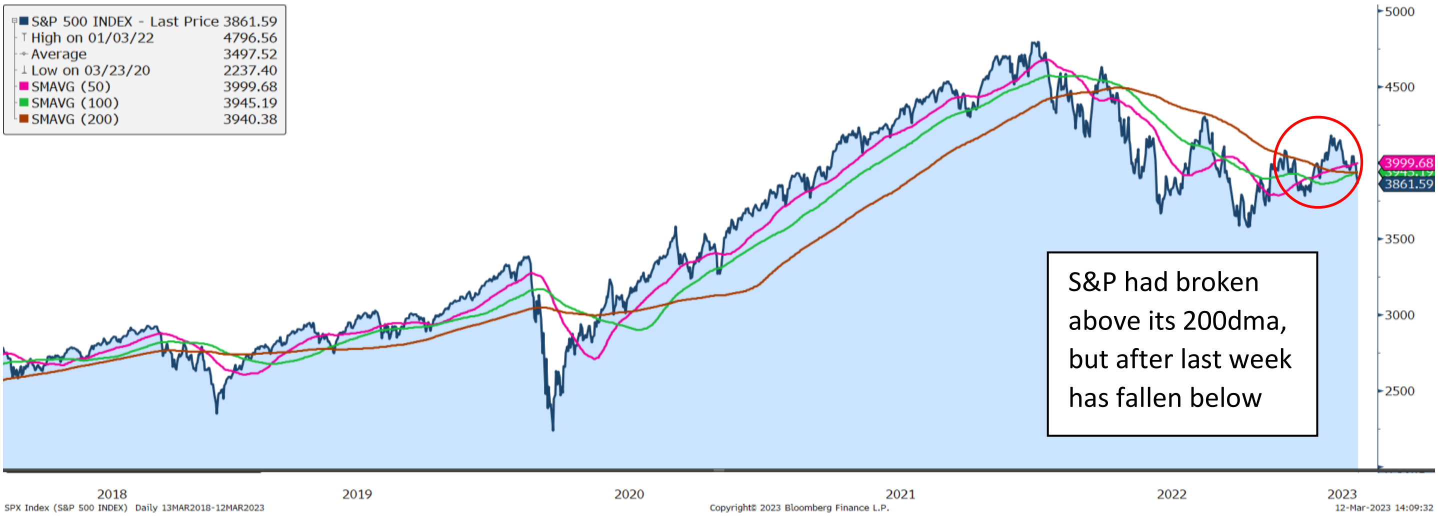
Smaller US banks are not the only ones that concern market. Credit Swiss is another.



iShares 20yr Treasury Bond ETF (TLT US) - 5 years



S&P 500 DMA – 5 years



US Bonds – As of March 12th 2023- 1 Week

United States | Settings | Historical Data Range: 1 Week

Security		Price	Yield	Chg	Yield	#SDΔ/day	Low	Range	High	Avg	+/-	#SD	RSI
1) Benchmarks								◆Avg ●Now					
10) T 4 ⅝ 02/25	2Y	100-02¼	4.586	-28.4		-1.7	4.586		5.070	4.884	-29.8	-1.8	60.8
11) T 4 ⅝ 03/26	3Y	100-27+	4.317	-23.5		-1.5	4.317		4.746	4.589	-27.3	-1.8	59.2
12) T 4 02/29/28	5Y	100-05	3.965	-22.7		-1.7	3.965		4.349	4.214	-24.9	-1.8	57.2
13) T 4 02/28/30	7Y	100-27	3.860	-20.2		-1.7	3.860		4.198	4.085	[illegible]	[illegible]	[illegible]
14) T 3 ½ 02/33	10Y	98-11+	3.699	-20.5		-1.9	3.699		3.991	3.903	[illegible]	[illegible]	[illegible]
15) T 3 ⅞ 02/43	20Y	99-19+	3.903	-16.3		-2.0	3.903		4.124	4.065	[illegible]	[illegible]	[illegible]
16) T 3 ⅝ 02/53	30Y	98-17	3.707	-14.3		-2.0	3.707		3.894	3.843	[illegible]	[illegible]	[illegible]
2) Curves													
18) 2yr-10yr			-88.2	+7.9		1.4	-107.5		-88.2	-99.3	[illegible]	[illegible]	[illegible]
19) 2yr-20yr			-67.4	+12.6		1.8	-94.3		-67.4	-83.9	[illegible]	[illegible]	[illegible]
20) 2yr-30yr			-87.2	+14.5		1.9	-117.5		-87.2	-106.4	[illegible]	[illegible]	[illegible]
21) 5yr-10yr			-26.2	+2.0		0.6	-35.2		-26.2	-30.9	+4.6	+1.5	41.4

US Gov bond yields have fallen back as investors price in weaker inflation and rates.

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Warning

The past performance of any investment or a product is not a reliable indicator of future results, and it cannot be relied upon for investment decision making. The performance stated above for the Global and Disruptive Technology Strategy is for a composite of client accounts and is gross of all fees and commissions. Actual client performance may vary from the composite. The performance of the Multi-Asset Fund is based on a model portfolio.

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