Investment Playbook Weekly Update

29 July, 2022

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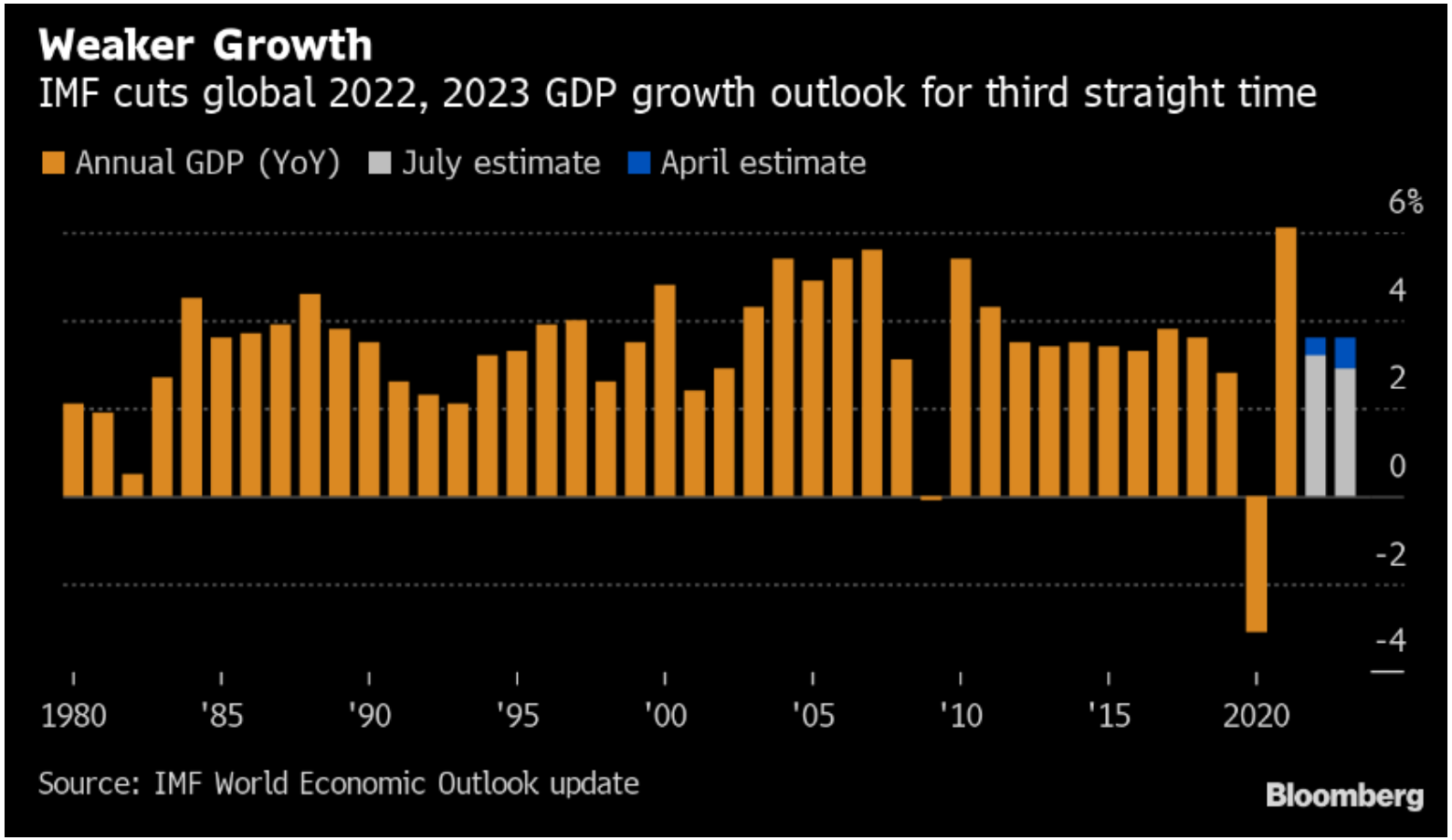
Macro Highlights

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Global economic growth -

The IMF cut its growth forecast to 3.2% from 3.6% in their July review

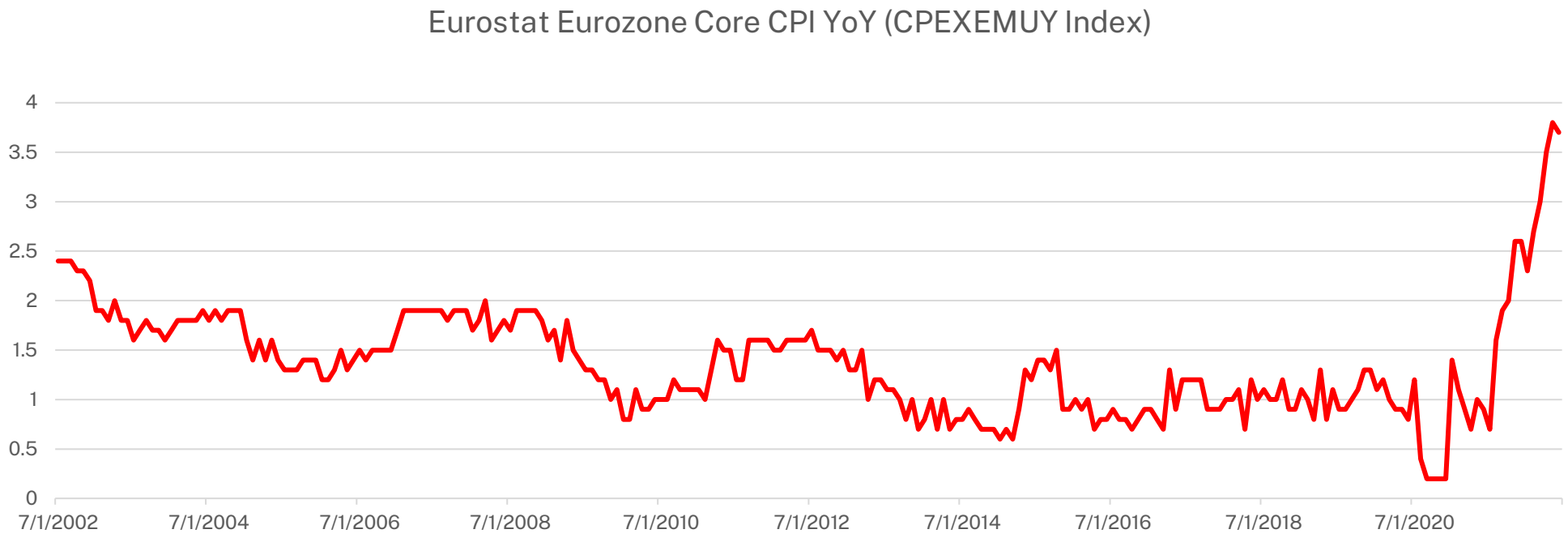


Source: Bloomberg, July 2022

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EU CPI- More pain ahead

Headline CPI grew 8.6% YoY .Core CPI grew by 3.7% YoY. Supercore CPI at 4.6%

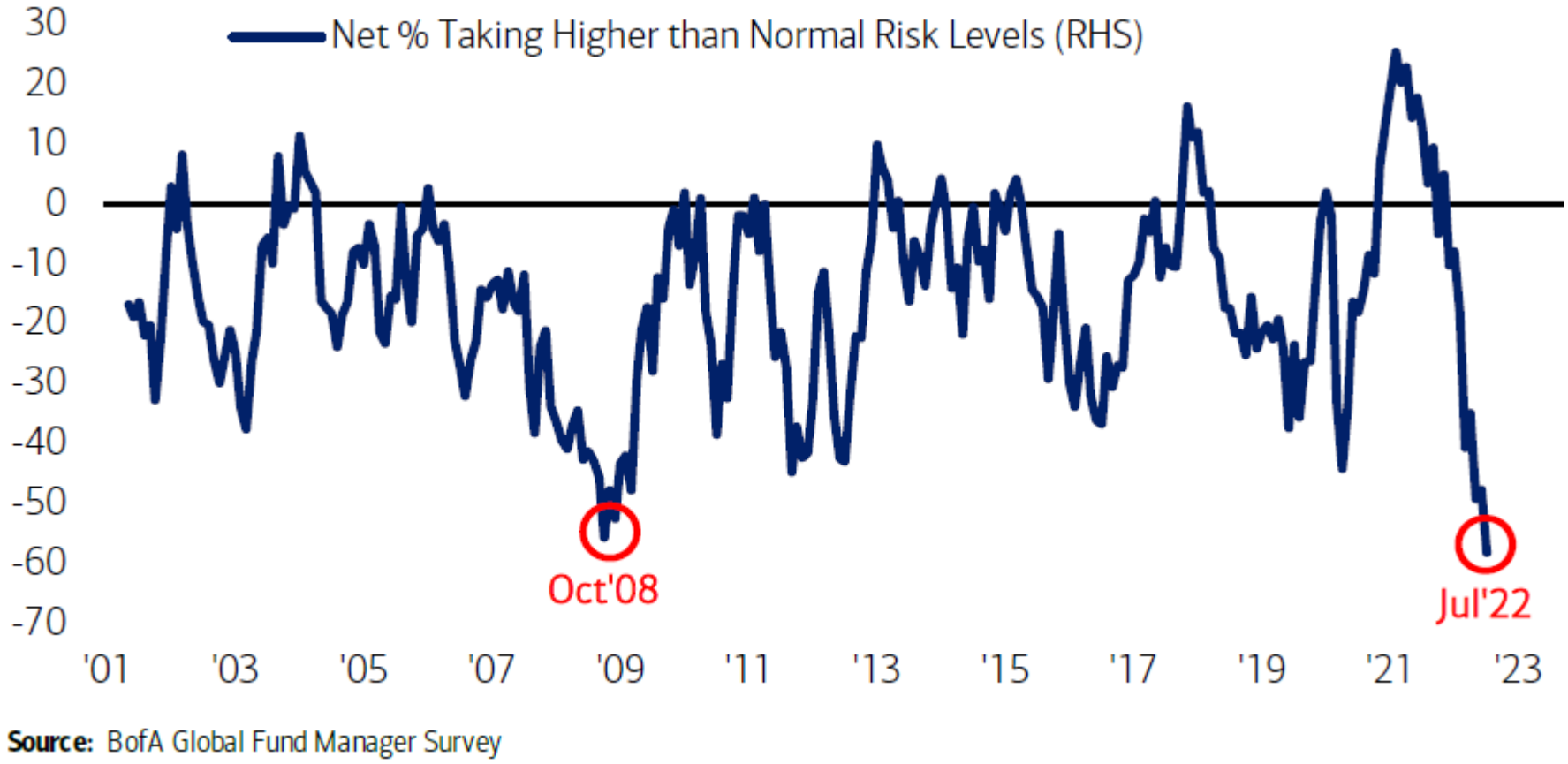


Source: Bloomberg, July 2022

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Extreme Bearishness

Global fund managers are more bearish than they were during 2008



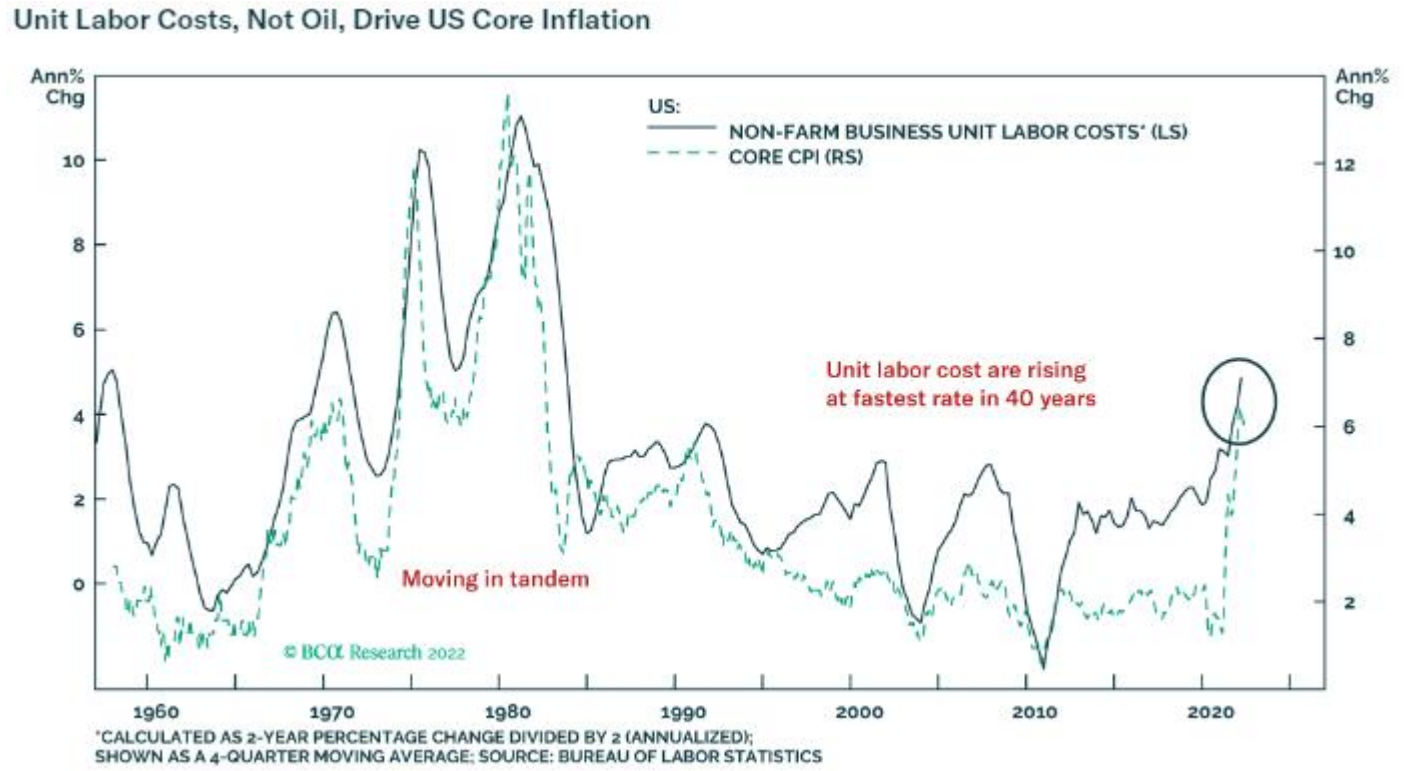
Source: BofA Global Fund Manager Survey

Source: BofA, July 2022

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Higher unemployment is likely needed to slow wage growth

Labour is the largest cost component of US businesses and key inflation driver



Source: BCA, July 2022

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Fixed Income Highlights

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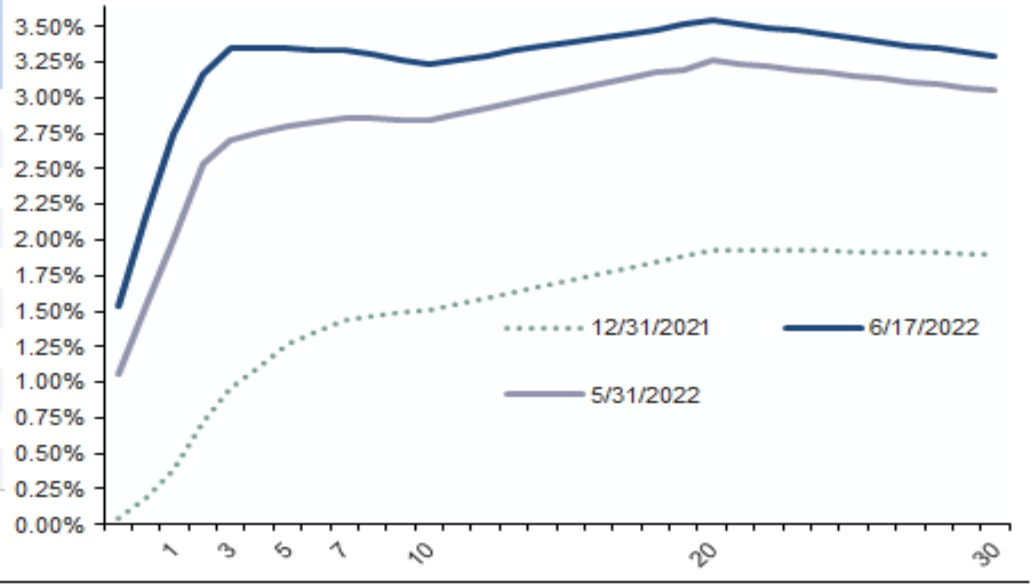
Changing dynamics-US Treasury Yield Curve

No reward for taking duration risk in US

US Treasury Curve Yields

Maturity	Current Yields	Weekly Change (bp)	MTD Change (bp)	2022 Change (bp)
3 months	1.54%	23	49	149
6 months	2.17%	25	62	198
1 year	2.75%	33	75	237
2 years	3.17%	13	63	245
3 years	3.35%	14	65	240
5 years	3.35%	9	54	208
7 years	3.34%	10	48	190
10 years	3.24%	8	40	172
20 years	3.54%	10	28	161
30 years	3.29%	10	24	139
2s-10s (bp)	6	-5	-24	-72
2s-30s (bp)	12	-3	-39	-106

Source: CreditSights, FactSet, Data as of 06/17/2022.

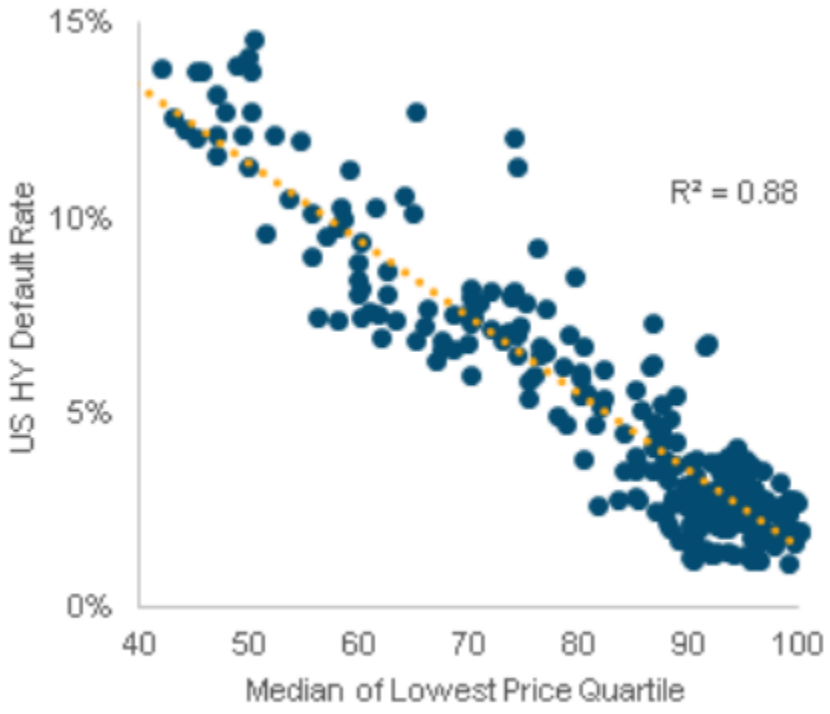


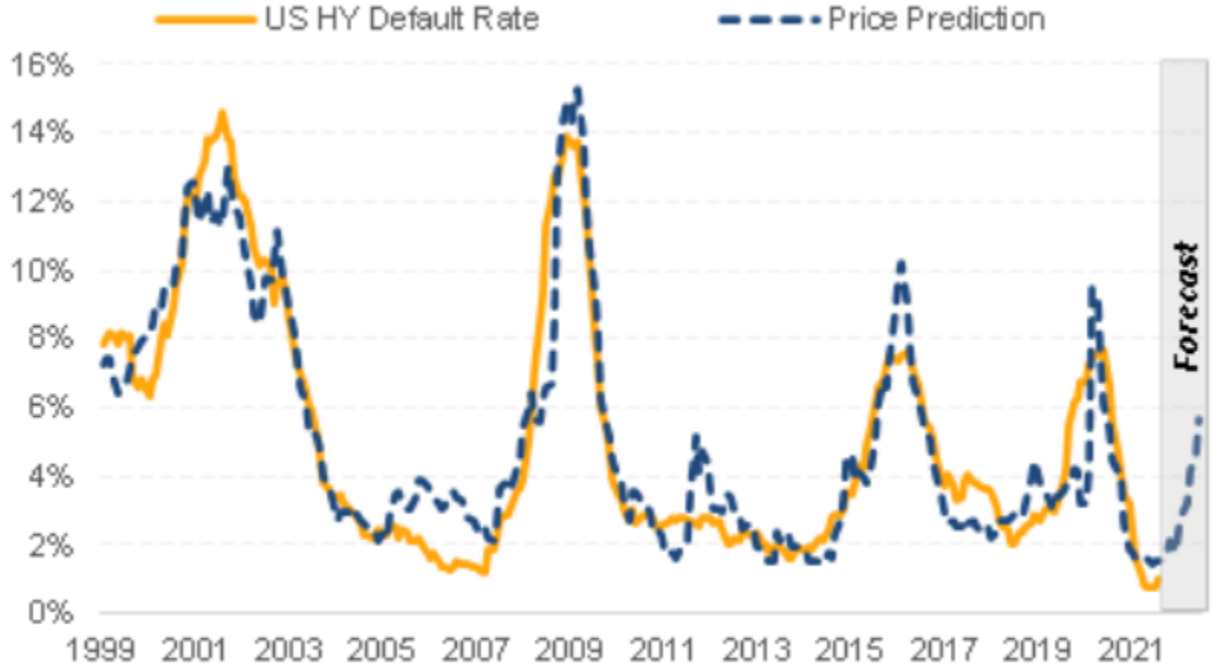
Source: CreditSights, July 2022

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US High Yield default rate expected to rise

Using CCC-BB spreads to predict the US HY issuer-weighted default rate





Source: CreditSights, July 2022

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Fixed Income – Executive Summary

- The Fed did not surprise the market with a higher than 75 bps hike. But its preferred Near Term Forward Spread continued to contract and is getting closer to an inversion. The shape of the yield curve in the US does not offer higher yields to investors in longer duration bonds. **Hence, we still recommend to keep the duration short (under 4 years)** as that will fetch investors yields like a longer dated paper.

- With continuous tightening financial conditions, US high yield default rate is expected to pick up in the next few quarters. **We would favor investment grade names**, which are also offering an attractive yield.

- European credit market clearly points to the refinancing risks faced by weak issuers. The differential in yields offered by junk issuers over their investment grade peers points in that direction. With the impending winters, inflation prints are likely to be at elevated levels thereby forcing the ECB to be more hawkish. **We recommend avoiding European High Yield issuers for now, especially on the back of 50 bps hike by the ECB and the ECB continuing with their data-based approach.**

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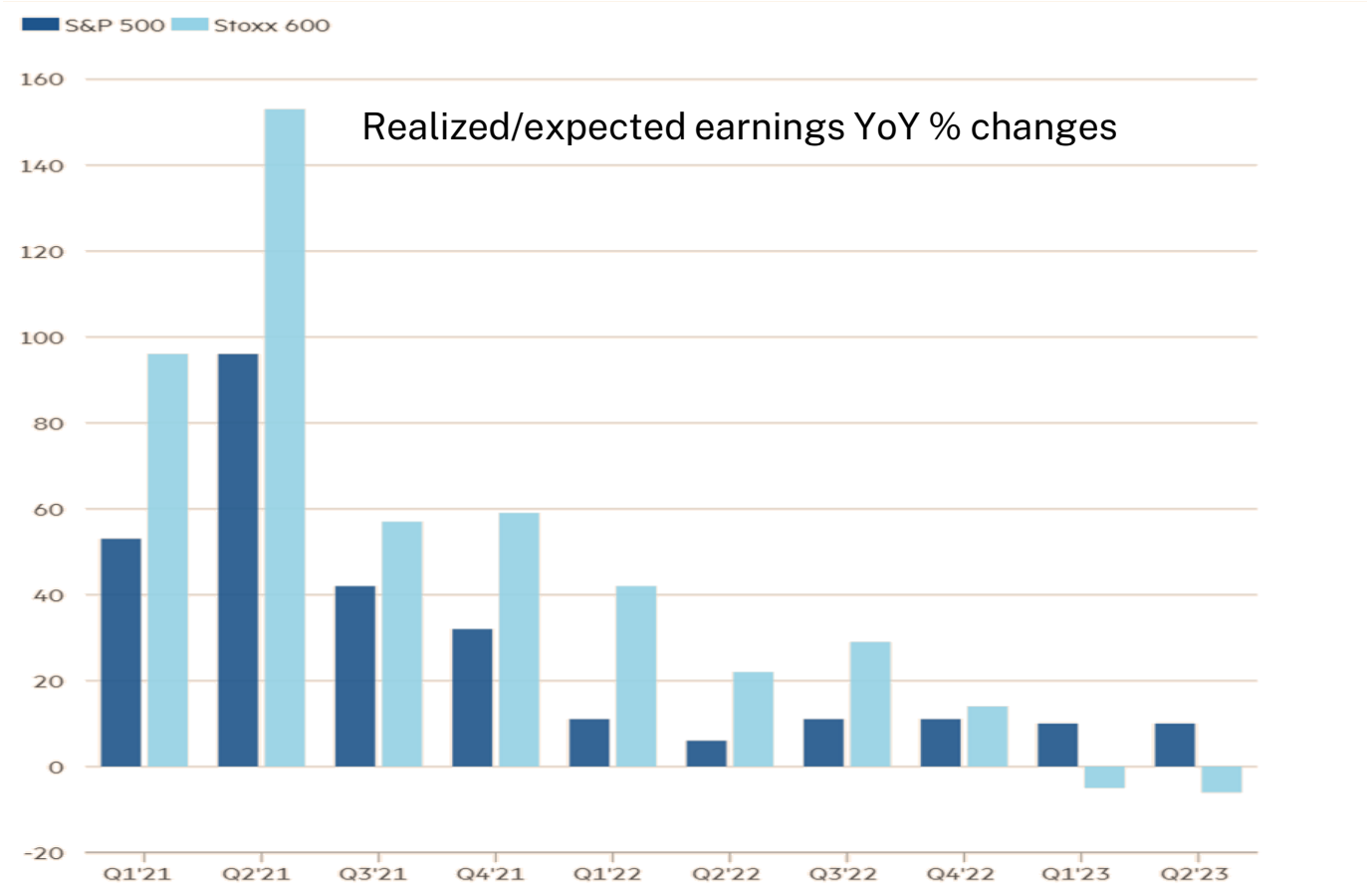
Equities Highlights

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Equity Markets have not bottomed out yet

The market is still expecting double-digit earnings growth in 2H22, which are likely to be downgraded.

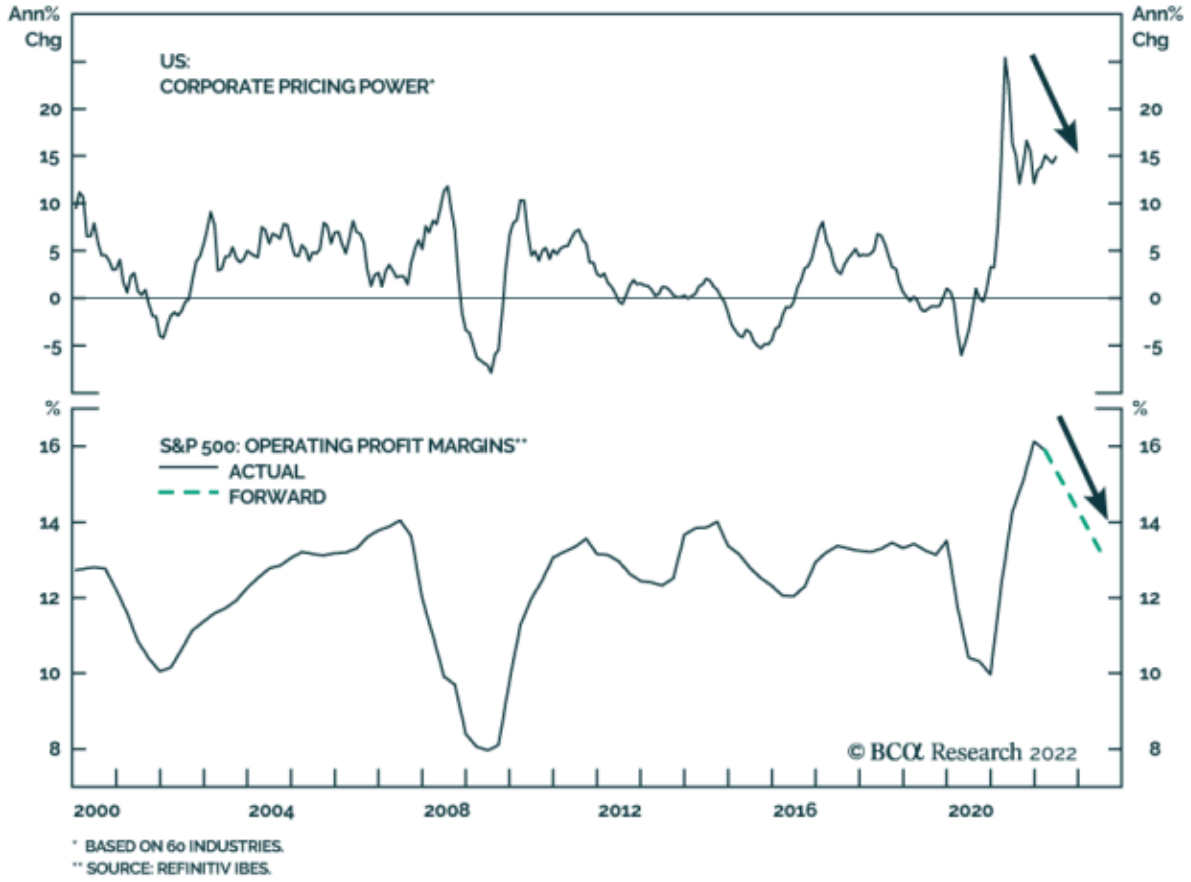


Source: IBES, Refinitiv, Barclays Research, FT July 2022

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US corporate margins have peaked out

Inflation across the supply chain, coupled with wage inflation is proving difficult to pass on

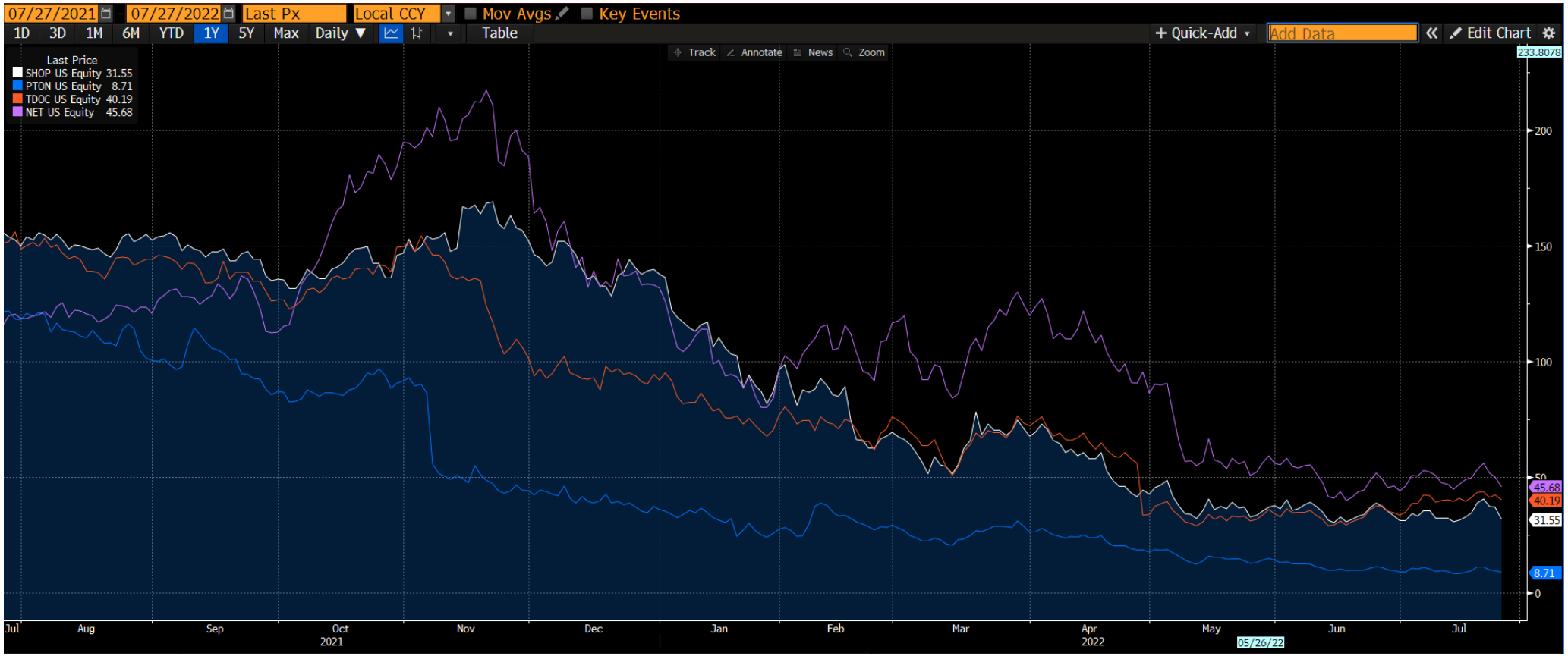


Source: BCA Research, July 2022

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Popular pandemic stocks get crushed

Companies like Peloton and Shopify made investments based on demand seen during the pandemic and are now seeing growth slow significantly.



Source: Bloomberg, July 2022

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Equities – Executive Summary

- **Markets saw a mixed week of trading (S&P 500 up 1.4%)** on the back of increasing tension between Russia and the EU, as Russia cut gas supplies from the Nord Stream pipeline to a measly **20% capacity** and deteriorating macro economic environment as evidenced by corporate earnings this week. Markets rallied on Wednesday however, as the **Fed hiked rates by 75-bps (as expected)** and followed up with commentary which was less hawkish than expected, with Governor J. Powell seeing a **slow down in rate hikes at some point.**

- Notable earnings this week included Snapchat, Twitter, Alphabet, Microsoft and Meta. Markets saw a new theme of **slowing ad spend** emerging from these sets of earnings, as **Snap tanked 40% in a single day** after missing revenue estimates. Elsewhere, **Twitter posted a loss this quarter**, while Alphabet, Microsoft and Meta all missed their revenue and EPS estimates.

- We continue to see macro economic pressures affecting company earnings, as evidenced by **shrinking operating margins**, primarily due to **supply chain and wage related inflation**, along with a **strong dollar eating into the earnings** of companies with a global footprint.

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Forex, Commodities & Alternatives Highlights

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FX, Commodities & Alts – Executive Summary

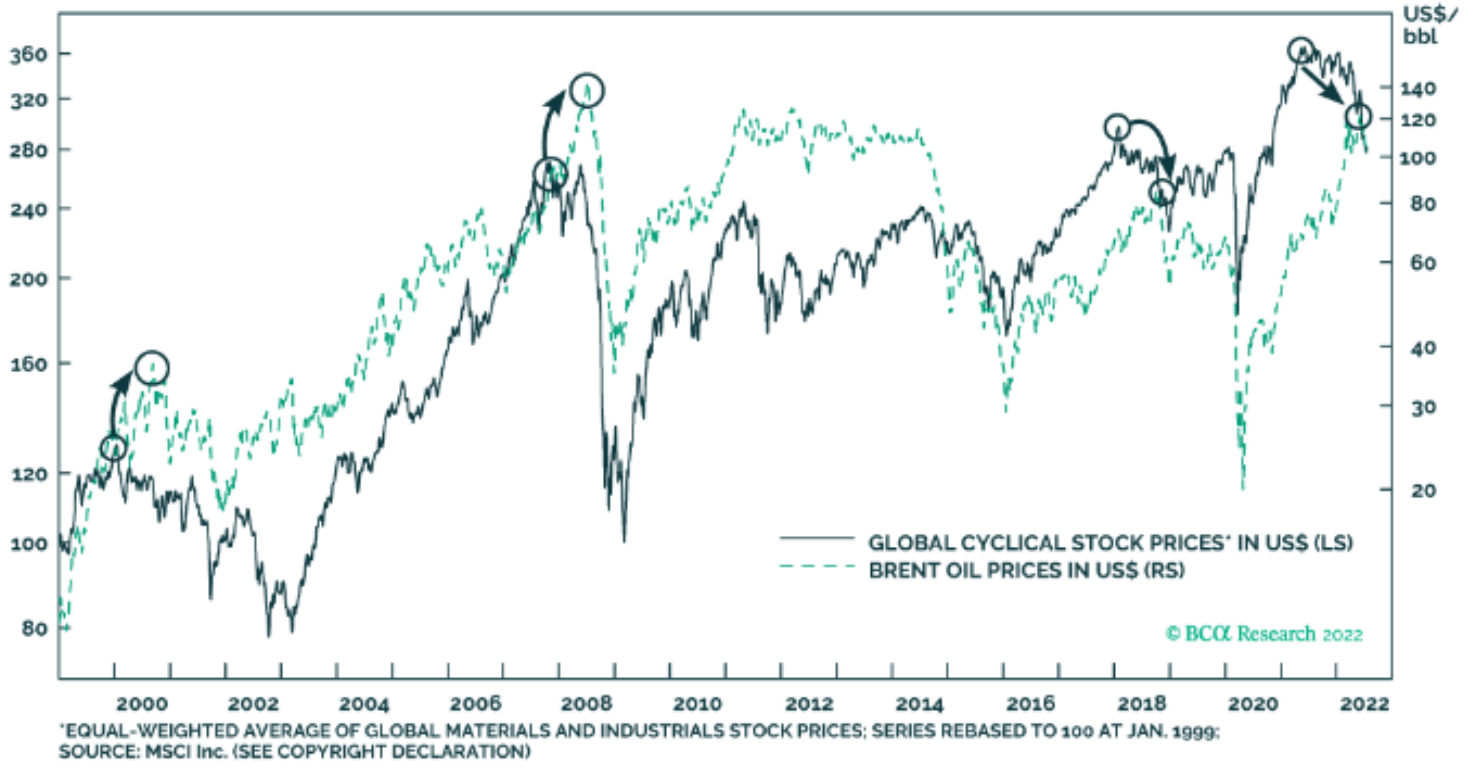
- **Falling commodity prices** do not reflect an improvement in fundamentals (increase in supply) but they rather **reflect financial speculators' shifting their positions in anticipation of a withering of demand**. Oil & Wheat prices have corrected back to their price before Russia's invasion of Ukraine; Copper trades at an 18-month low.

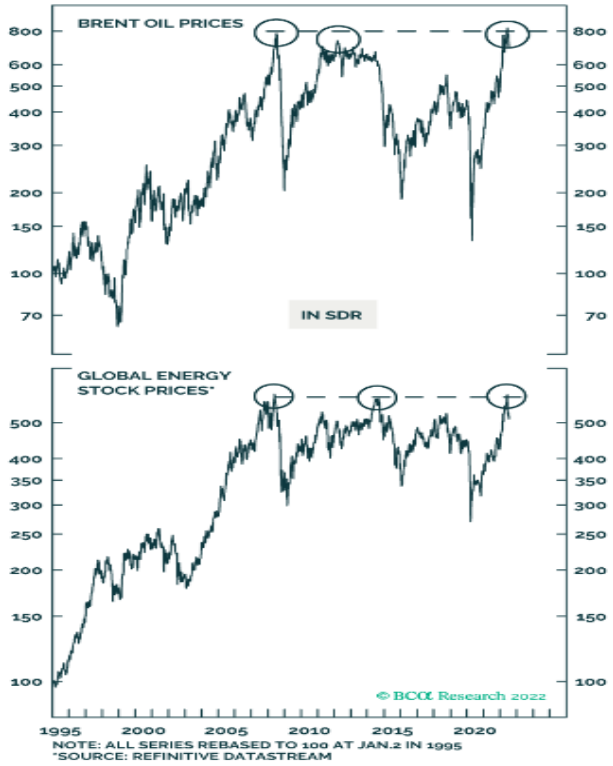
- As recessionary fears accelerate, we expect the USD to maintain its strength which should place continued pressure on most commodity prices, especially cyclically sensitive ones like copper and iron.

- **Gold was not spared from flight to safety flows** and should continue to suffer in the dollar's strength. However, over a longer-term perspective we think gold looks like an attractive play in view of more momentum in de-dollarization trends and stagflation which would act as powerful tailwinds for the precious metal.

More room for sell off in cyclical commodities

Oil prices lag the markets. Technicals suggest early innings of a down move.





Source: BCA, July 2022

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Gold miner equities look cheap vs gold spot

Gold miners trade at 2S.D. spreads from gold spot

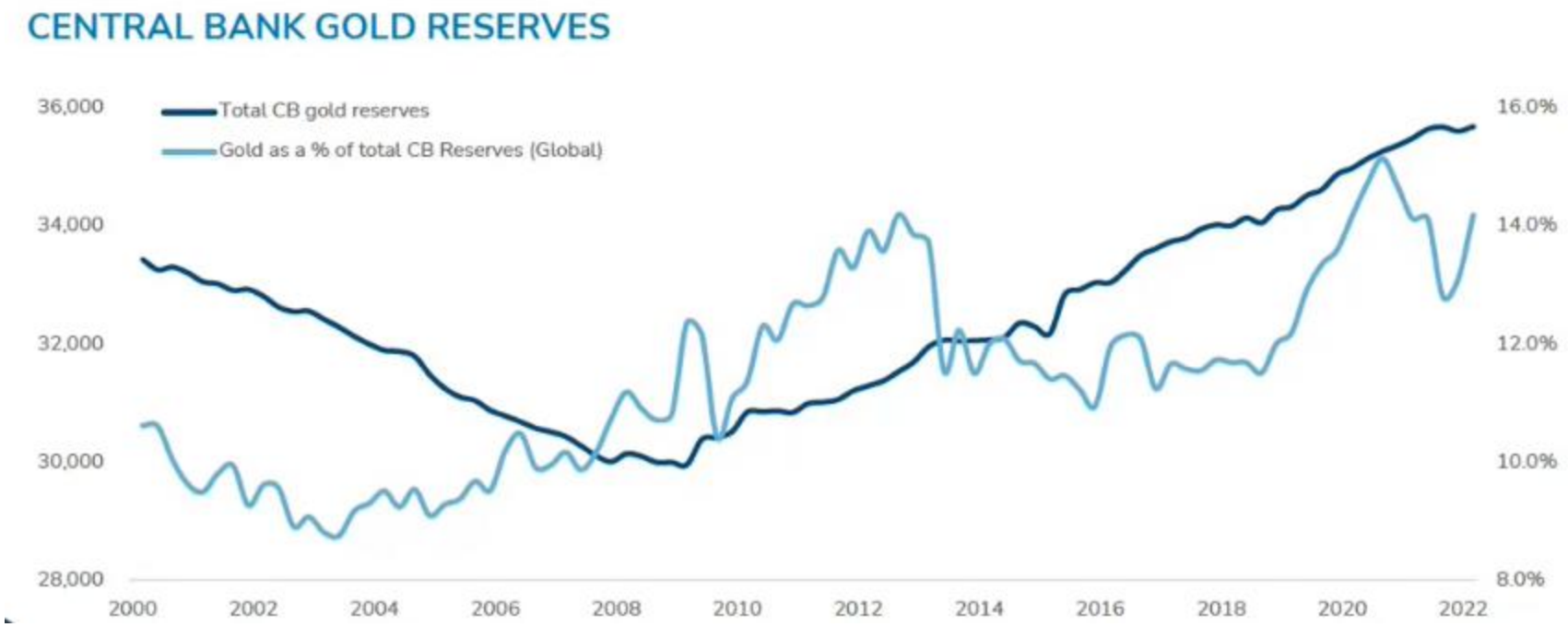


Source: Bloomberg, July 2022

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Central Bank gold ownership is picking up

Need for diversification could continue to drive de-dollarization theme



Source: Delbrook Capital, July 2022

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