Key Take-Aways

- Despite a strong positive beginning of the month, markets were penalized by hawkish central banks and ended the month back into deep negative territory. Defensives were resilient this month, with the utility sector rising by 0.5%.

- The highlight of the month was the Jackson Hole Economic Symposium and Jerome Powell's speech. The Fed President stated that the path for tightening monetary conditions will continue for longer than expected until inflation abates. Investors received this quite negatively and straight after his speech, the major US stock indices fell by 4%.

- In terms of macro economic data, the latest inflation figure in the United States finally came down, and by more than expected, from 9.1% in June to 8.5% in July. Nonetheless, this is only one data point and remains at extremely elevated levels which will not deter the Federal Reserve to continue its monetary tightening path.

- Fixed income markets returned to a «fear of inflation» mode, with the entire Treasury yield curve shifting up, namely in the short end, with the 2-year almost reaching 3.5%. A positive news for fixed income investors is that it is again possible to buy short-maturity and high quality issues in EUR and even CHF with positive yields.

- The S&P 500 is down 18% year to date and appears to be heading for its worst year since 2008. Investors should be prepared for market volatility in the weeks ahead. Nonetheless, new entry points to play short term bounces should present themselves. The levels between 3750 and 3650 or a VIX index at 35 should be considered with interest.

- The US dollar Index continues to benefit from a hawkish Fed, touching a new 20-year high. However the EUR currency sank below the 0.99 vs the dollar, pressured by a combination of Hawkish Fed, a strong probability of recession in Europe and the risk of a cut off Russian energy supply.

August Review : Jackson Hole, all in inflation

August started on a positive note, boosted by strong corporate earnings and robust employment figures. This pushed the S&P500 to +4.5% and the EuroStoxx50 to +2.6% by mid-month. But this enthusiasm was dampened by the Fed's minutes and comments following the Jackson Hole symposium, where Jerome Powell reiterated his intention to bring inflation down, no matter what, even if it means the economy suffers. This sent global indices into meltdown, sending the S&P500 and EuroStoxx50 down 8% and 7.5% respectively from their highs of the month. For the month of September, the market is expecting a 75bps hike from the European Central Bank and uncertainty remains over a possible hike from the Swiss National Bank.

The US indices all ended the month negatively, with the S&P500 finishing at -4.08%, the Nasdaq at -4.93% and the Dow Jones at -3.72%. It is worth noting that most of this decline occurred over 5 days. In Europe, the scenario was identical, with indices losing between -1.06% (FTSE 100) and -6.17% (AEX Index). While the Eurostoxx50 finished at -5.09%. In emerging markets, the IBOVESPA ended the month up 6.16%, bringing its year-to-date performance to 4.48%. In China, the CSI 300 fell by 1.96%, bringing its ytd performance to -15.46%. The energy and utilities sectors continued to perform well, rising 2.83% and 0.51% respectively, continuing to be the only positive sectors this year.

The dollar index rose by a further 2.64% to 108.7, an annual increase of 13.62%. The Yen and the Pound continued their slide, falling against the dollar by 4.27% and -4.51%.

The 10 years yield rose by 54bps to 3.19%. The bund yield rose by 17bps to 1.54%. After a break in July, bond indices resumed their decline, with the Bloomberg Global High Yield Index and the JPMorgan EMBI falling by 1.51% and 1.17% respectively, while the Bloomberg Global Aggregate and Core Developed Govt indices lost 3.95% and 3.42%.

The Bloomberg Commodity Index remained stable at 121.6 (-0.15%). Despite this stability in the index, natural gas continued to rise, with +14.77% for the month and 194% for the year.

VIX index remains low and stable at 25.90.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	3,955	-0.76	-4.45	-4.08	4.77	-16.15	16
Nasdaq	11,816	-0.56	-4.93	-4.53	7.30	-24.06	22
Russell 2000	1,844	-0.60	-4.68	-2.05	8.18	-17.18	18
Euro Stoxx 50	3,517	-1.25	-4.10	-5.09	2.00	-15.73	10
Stoxx 600 EUR	415	-1.12	-3.88	-5.03	2.34	-12.42	11
FTSE 100	7,284	-1.05	-2.42	-1.06	2.57	1.53	9
SMI	10,855	-0.27	-1.43	-2.61	1.06	-13.40	14
NIKKEI 225	28,092	-0.37	-0.73	1.10	6.50	-1.29	15
CSI 300 China	4,079	0.07	-0.01	-1.96	-8.17	-15.79	11
MSCI EM Index	994	0.14	0.94	0.45	0.27	-17.31	11

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	3,955	-0.76	-4.45	-4.08	4.77	-16.15	16
UTILITIES	376	-0.68	-2.76	0.51	6.04	5.45	20
ENERGY	612	-0.94	-3.10	2.83	12.82	48.52	9
TELECOM	184	0.01	-3.40	-4.19	-0.64	-30.61	14
CONS STAPLES	759	-0.57	-3.68	-1.75	1.48	-4.18	19
REAL ESTATE	262	-0.33	-3.63	-5.61	2.44	-18.16	33
CONS DISCRET	1,221	-0.97	-5.16	-4.57	13.51	-23.75	21
MATERIALS	473	-1.19	-4.37	-3.47	2.45	-15.89	14
HEALTH CARE	1,451	-0.63	-3.67	-5.78	-2.65	-10.77	15
INFO TECH	2,365	-0.95	-5.85	-6.12	6.59	-22.09	19
FINANCIALS	548	-0.85	-3.53	-2.01	5.05	-14.62	11
INDUSTRIALS	783	-0.84	-4.65	-2.81	6.43	-11.44	16

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	108.7	-0.07	0.02	2.64	3.84	13.62
EUR-USD	1.0054	0.39	0.87	-1.62	-4.10	-11.57
USD-JPY	138.96	0.12	1.34	4.27	2.39	20.75
USD-CHF	0.9775	0.33	1.13	2.64	2.35	7.08
EUR-CHF	0.9829	0.73	2.01	1.00	-1.82	-5.26
GBP-USD	1.1622	-0.29	-1.50	-4.51	-4.57	-14.11
EUR-GBP	0.8651	0.68	2.39	3.06	0.48	2.82
JP EM FX Index	50.06	-0.61	-0.28	-0.72	-3.07	-4.77

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	3.19	9	9	54	168	168
Germany	1.54	3	17	72	172	172
UK	2.80	10	10	94	183	183
SWITZERLAND	0.84	2	0	40	97	97
Japan	0.23	-0	-0	4	16	16
US IG Spread	154	1	5	-1	54	54
US High Yield spread	522	1	32	14	252	252
EUR High Yield spread	575	13	8	-27	229	229

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	121.6	-0.75	-2.49	-0.15	3.92	22.66
Gold Spot $/OZ	1711.0	-0.75	-2.29	-3.11	-5.32	-6.46
Crude Oil WTI	89.6	-2.28	-6.37	-9.20	-15.33	16.31

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	25.9	-0.34	3.05	4.54	-9.89	8.65

Source: Bloomberg 08/31/2022

Macro & Rates: Higher-For-Longer Interest Rates

During an eight minute speech at the Jackson Hole Economic Symposium, Fed Chairman Powell killed hopes for an imminent pivot and triggered just after his speech a 4% correction on major US stock indices, equivalent to more than USD 1 trillion.

In essence, Mr Powell said that monetary tightening will continue for longer than expected, until inflation abates. With several references to the past, notably inflation from the 1970s, J Powell said that «the historical record cautions strongly against prematurely loosening policy». He also underlined two key points: First, inflation is the core mission of central banks and they have to fight it, no matter if part of it is on the back of supply, and regardless of the impact on the economic activity. Secondly, the fight will continue until data confirms with no doubt that the job is done, that is to say lower inflation, and lower inflation expectations. In other words, Powell abandons «soft landing» and wants weak growth and softer labour market to cut inflation. Powell's speech made it clear that economic weakness is a price that the FOMC is willing to pay to ensure that inflation returns to target.

Regarding Europe, the ECB might be constrained to follow Fed's rate hike. However, it will be more challenging for the Euro-Zone if the ECB accelerates its rate campaign.

Indeed, from an economic growth point of view, Europe is in a very tough situation with its energy crisis and it seems extremely difficult to avoid a recession. With European Natural gas and electricity prices at ultimate highs, the energy bill will be clearly visible in the coming months, both economically and socially. On top of that, the ECB is facing pressures as Peripheral country spreads, among Italy, are widening back again, close to recent high. Six weeks after the announcement of the Transmission Protection Instrument (TPI), the ECB has not dissuade speculative investors to bet on further widening spreads and the central bank could be forced to activate sooner rather than later the TPI.

Meanwhile, China is in a perilous place. However, with vigorous stimulus (a first stimulus package flirting with 1% of GDP has been launched recently) and radical action on real estate (the People's Bank of China cut both loan prime rates after a 10bps rate cut in key policy interest rates, the Chinese economy could print 3% GDP growth and more.

With the exception of China, major central banks will keep on tightening with a common target: slow inflation and ease inflation pressures. Following Jackson Hole, the message is crystal clear: the fight against inflation will require «maintaining a restrictive stance for some time».

The financial market rally observed in July and early August has pushed back financial conditions close to neutral levels forcing central bankers to sharpen the message in the context of Bond, Credit and Equity markets that had been ignoring those same signals previously. Hawkish communication is part of the tightening toolbox and can be used by central bankers to move financial conditions in the direction they want.

Rather than 50bps or 75bps at the next meeting, the main question going forward is how long the Fed maintains rates at the eventual peak. The answer will obviously come from the macro economic data. US inflation seems to have peaked, which is a good news but CPI reports in the coming months will have to confirm the pace of inflation deceleration. The recent US employment report was also encouraging with the uptick in the labor force participation rate, to a post-Covid high of 62.4%, suggesting a significant easing in some of the labor shortage and largely explaining the rise in the unemployment rate to 3.7% from 3.5%.

While this recent set of data cannot let us dreaming about an imminent pivot, more numbers like this will provide encouragement that the inflation delta is moving the right way, perhaps without incurring the economic contraction that has recently seemed like a final conclusion.

Fixed Income: From recession fears back to inflation fear

In August, after a period marked by «fear of recession», fixed income markets returned to a «fear of inflation» mode in which the entire Treasury curve shifted upwards. The short end is now significantly higher than in June, and the 2-year US Treasury yield has almost touched 3.5%. Spreads remained fairly stable in August, rising only moderately. USD IG trades with a spread of 150bps and HY with 520bps. Both are below their June highs of 175bps and 600bps, respectively. Corporate spreads reflect the continuing strength of the US economy as witnessed by recent data, and especially a strong labor market with low jobless claims and an unemployment rate at 3.5%.

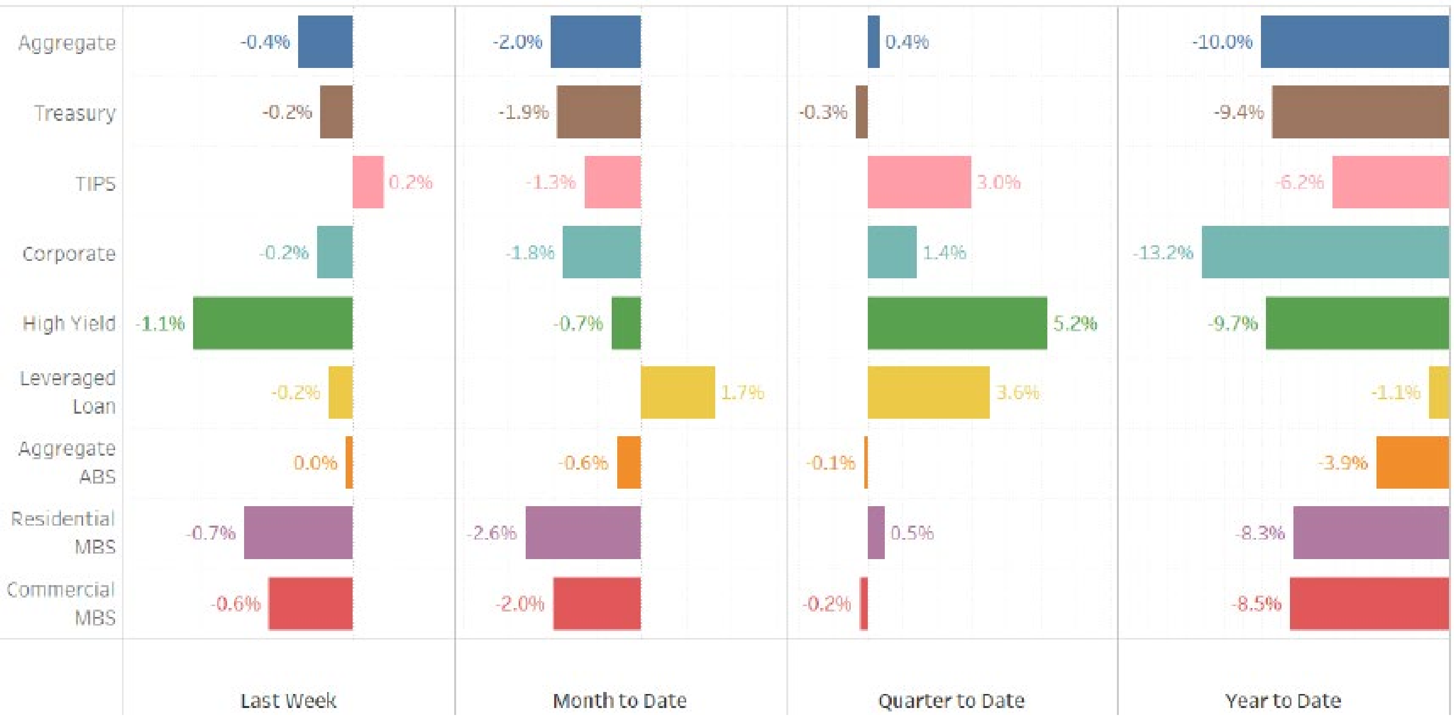
Indeed, financial conditions as measured by the Goldman Sachs Financial Conditions Index have been tightening since December of last year and reached a peak in June. Persistently high inflation have sparked a hawkish response from the Fed which is now expected to raise rates by another 75bps in September. The Fed funds rate is expected to reach close to 4% within six months. The Cleveland Fed forecasts the year-end CPI to be between 3.3% and 6.7%, depending on the scenario. Economists still see US CPI reverting back to 2% - 2.5% by March 2024.

The risk in these forecasts is the assumption that inflation is transitory and that the world economy will return to its pre-Covid state. This view ignores several important structural changes which have taken place since such as: firstly, globalisation has probably reached a peak as re-shoring is gaining momentum. Secondly, the era of cheap (Russian) energy seems to be over. These are inflationary scenarios and it will take time for the world economy to adapt.

The performance of «conservative» profiles is not much better YTD than that of a more «aggressive» asset allocation. This is due to the fact that since the beginning of the year, bonds are down across the board and have not been a «defensive» investment. It is not uncommon to see a conservative profile in USD with 55% in bonds that is down 10% or more YTD.

Among the few positive news for fixed income investors is the fact, that it is again possible to buy short-maturity and high quality issues in EUR and even CHF with positive yields. For those who share the forecasts of inflation falling to pre-Covid levels, these might even be good investments...

USD Fixed Income Market Total Returns as of 30.8.2022



Source: Arbor Research & Trading LLC

Equity: Despite the uncertainty of the markets, future volatility ahead could create buying opportunities.

Inflation uncertainty, coupled with rising interest rate is a real challenge for equities for the rest of the year.

The equity market started August by continuing to bounce back from a strong summer rally. Since the middle of the month, the market has lost some of its glory and moved back into negative territory after a hawksish FED and recession fears. The downward movement has been as rapid as the upward rally, loosing nearly 10% from its recent August highs. All in all, it was the worst August on record since 2015 and was the fifth of eight monthly declines for Wall Street stocks in 2022.

The S&P 500 is down 18% year to date and appears to be heading for its worst year since 2008 and its third worst year since 2000, Looking at recent history, investors should be prepared for market volatility in the weeks ahead. Although the VIX volatility index remains steady on this year's average of 25, in a range of 20 -35, Powell's comments and investors' reaction to his speech make the beginning of September a very volatile month that could easily spill over into October.

Indeed, since the turn of the century, the Dow Jones and the S&P 500 have averaged losses of more than 1% in September. When the S&P is down in the beginning of September, as it has been this year, the index loses an average of 3,4% over the month. This is not good news. September is also the worst month for the Nasdaq 100, being the only month of the year with a negative return on average for the index. Movements in the options market also seem to indicate that the situation could deteriorate. The number of bearish options contracts outstanding on the QQQ ETF (Nasdaq 100 tracker) is currently near its highest level since the internet crash of 2000.

In Europe, the situation remains complicated. The geopolitical problems and the energy crisis do not encourage optimism. Euro Stoxx50 is close to the lowest level of the year. But as the markets tend to integrate all the bad news in advance, a short squeeze cannot be excluded on the slightest positive news.

Among the sectors , energy was again the best performer.

In the current market conditions, we prefer the consumer staples sector, which is traditionally well positioned to weather an economic downturn and tends to outperform in times of crisis. We would avoid the consumer discretionary sector which looks expensive in our view. But if we look at profit margins of US companies, we see that they do not yet signal a recession. Aggregate US corporate earnings rose 7,30% in the second quarter of 2022,

Until we have more clarity on the FED's rate moves as well as its plans to shrink its massive $9 trillion balance sheet, risky asset will struggle to make a sustained recovery.

But new entry points to play short term bounces should present themselves. The levels between 3750 and 3650 or a VIX index at 35 should be considered with interest.

The level of 35 on the VIX index should be a good entry point

Forex And Commodities:

Hawkish USD Signal, EUR and GBP Out Of Control

Still benefiting from aggressive interest hikes, the US dollar Index continued its momentum to touch a new 20-year high above 110 level. As the gap between US and other yields narrowed more and more, the dollar has steadily pressured most of the other currencies since the beginning of the year and will likely continue to do so. Based on the latest macro data, especially relative to the tightness in the job market, investors could remain confident that this would give the central bank enough impulsion to raise rates sharply in September and push again the USD to new highs. The next resistance took place at 112 and a close support is held by the 50 days SMA around 107.5.

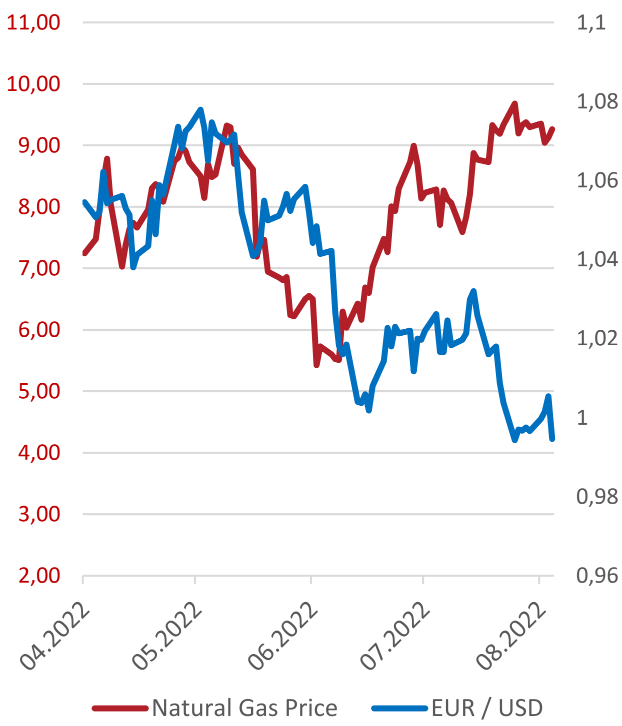
Looking at the old continent, the EUR currency sank below the 0.99 vs the dollar. Hammered by a combination of Hawkish Fed, a strong probability of recession in the EUR area and last but not least the risk of a Russian energy cut off. The latter crisis weighs more and more on investor sentiment, making the EUR direction increasingly negatively correlated with natural gas price. With the winter coming, a rise of the gas price could bring Euro to fall further below parity with USD. Therefore, all the eyes are now turned on the ECB decision on September 8 and the question whether it will deliver or not a "Jumbo" hike rate (0.75bps) in order to "stabilize" the EUR. If the ECB hawkish positon was to disappoint, investors could see scope for an even bigger correction in the single currency, the EUR/USD pair should continue to test its support of the 50 days SMA and persist in its weakness.

Also well impacted by the energy crunches and the relentless dollar rally, the British Pounds declined to its lowest level vs the USD since 1985 reaching a level below the 1.15 support. However, the persistent weakness of the GBP took mainly its roots from an increasingly UK current-account deficit. As a consequence, the relationship between interest rates and the pound is reversed (phenomenon that exists mainly in EM currencies). Henceforth, reflecting doubts about the BOE's ability to control inflation. This deficit is likely to be completed by the freshly elected new Prime Minister Mrs. Truss, who pledged out an easier fiscal policy (tax cuts). The Pound could be therefore on the track for further devaluation with an immediate support at 1.144.

Regarding the JPY/USD, the break above its prior high at 139.4 may open the way for a rise toward the next resistance holding at around 145 (psychological level). *As for the USD/CHF,* it is trading in its multi-year consolidation range between 98 and 95, with some attempt to break the parity level twice before the positive momentum faded. It is now back to the resistance at 98 and should keep going this way without immediate decisions from the BNS.

The crude oil is about to see its 50 days SMA falling below its 200-days SMA. A negative signal that may suggest upcoming weakness ahead. *Gold* is still tasting its lower band of its range at 1680 level. The current trend remains negative with the 50 days SMA acting as resistance.

Rising Gas Price Lead EUR Downward ?



Source: Bloomberg

Reverse Relationship Between UK Yield and Pounds

Source: Bloomberg

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