June Monthly Review

A summary of key events and market trends during the month of June.

SGMC CAPITAL

Global Markets Update

- Another leg down for global equity markets puts the first half performance for this year as the worst in almost five decades with the technology focused Nasdaq Index down 30 % from the start of the year

- The rise in inflation appears to be slowing but more importantly not coming off as much as policy makers would like and we are still seeing headline numbers in the high single digits

- Commodity prices are off the highs with copper trading at the lowest level in a year and off 20 % from its recent peak. Energy prices too are lower, and off 15 % from the highs in March

- Interest rates have been tracking inflation higher and markets now price a peak overnight Federal Funds rate of around 3.50 % in March 2023

- Given the current yield curve and the widening of credit spreads, we are seeing attractive levels of fixed income new issues come to market

- Corporate results for the upcoming quarter will reflect the slowing growth picture and markets will digest the lower sales along with efforts that individual companies make to protect bottom line profitability

- The Volatility Index continues to trade lower than the peaks of late last year and earlier this year and indicates that good part of positioning unwind could be out of the way. Anecdotally, we are hearing the recent declines in valuations has led to considerable selling among levered investors and this could portend reduced selling in the coming months as markets overall contend with slower pace of growth

Federal Reserve playing catch up

The Fed surprised markets with a 75 bp rate hike and signaled potentially more to come

Key markets

Index	Month to Date (%)	Year to Date (%)
Topix	-2.19	-6.10
Hang Seng China Enterprises	3.37	-6.91
Dax	-11.15	-19.52
Euro Stoxx 50	-8.82	-19.62
S&P 500	-8.39	-20.58
Dow Jones	-6.71	-15.31
Nasdaq 100	-9.00	-29.51
US 10 Year Treasury	0.17	0.51
Bloomberg Barclays Global Aggregate Index	-3.21	-13.91
EUR USD	-7.53	-16.87
USD JPY	-2.33	-7.79
Gold	5.48	17.94

Recap of the month …

After a relatively quiet month of May, June saw further acceleration to the downside in asset prices. This is primarily off the back of continuing high inflation and the Federal Reserve response to the same. Other global Central Banks also are in tightening mode with the Swiss National Bank surprising markets with an interest rate hike.

The exceptions to the tightening are the People's Bank of China and the Bank of Japan which continues to exert considerable pressure in the fixed income markets by holding the yield on the 10 year bond at 25 basis points and in the process buying up close to half of the overall Japanese Government bond issuance. This dovishness in turn has weakened the Yen to levels not seen over the last 2 decades or longer in certain cases. China will likely continue to provide stimulus to the economy, and indirectly to markets, while the restrictions on physical movement as part of their zero-covid policies are in place. This is likely transient and support likely end as the country recovers from the lockdowns.

Japan is in the unique position of having to deal with, till recently, decades of chronic deflation and policies in place there address their unique situation. The rest of the world today contends with high inflation and while prices have moved significantly higher over a one-year period, shorter tenor views show some moderation.

Commodity	Last 12 months (%)	Last 6 months (%)	Last 3 months (%)
Iron	24.20	24.20	-9.68
Copper	-15.05	-15.05	-20.40
Crude Oil	41.05	41.05	6.86
Wheat	13.92	13.92	-10.82
Corn	25.41	25.41	1.22

Commodity prices : The last 3 months has seen prices of various commodities moderate while the longer periods out to one year prior are still elevated

The twelve-month view in the chart above shows how prices are significantly higher from a year ago while negative or significantly less positive on a three-month view. As higher interest rates pressure prices lower and with the impact of base effects we would expect inflation to moderate in the coming months.

The Federal Reserve is now expected to hike overnight rates to peak of around 3.50 % by March 2023 and with the two-year US Treasury bond currently trading at 2.90 % we would expect their current level of hawkishness would be sufficient to tame inflation. The upcoming FOMC meeting in July should see another round of a 75 basis point hike.

The European Central Bank has indicated a path to higher rates at their next meeting and this has led to wider credit spreads for the debt of the Eurozone periphery. The market will need to see evidence of a credible plan to keep spreads anchored while monetary stimulus is rolled back and this will be the key focus for their policy meeting in July.

The Volatility Index (VIX) trading at around 29 indicates there is a continuing bid for protection against lower equity prices. Having said that the index traded north of 35 towards the end of 2021 and earlier this year too and this indicates that the bulk of the hedging could have been put in place already. We continue to watch the evolution of volatility closely as we head into the earnings season.

All information in this report has been obtained from Bloomberg sources except where indicated otherwise. All data in this report is as of the last international business day except where indicated otherwise.

This report may contain forward looking statements which are often but not always identified by the use of words such as “anticipate”, “believe”, “estimate”, “intend”, “plan”, “expect”, “forecast”, “predict” and “project” and statements that an event or result “may”, “will”, “can”, “should”, “could” or “might” occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward-looking statements. Readers are cautioned not to place undue relevance on these forward-looking statements. SGMC Capital expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

This report is for information and illustrative purposes only; it is in no way a recommendation, or an offer or solicitation to buy or sell any investment products, but only factual information being provided. SGMC Capital will not be held liable for any information provided in this document which is stated to have been obtained from third party sources, this information may be based on assumptions or market conditions and may change without notice.

The information in this report was prepared by SGMC Capital and is current as of the date of the report. The information contained herein has been obtained from sources that SGMC Capital believes to be reliable, but SGMC Capital does not guarantee its accuracy, adequacy, completeness, reliability, or timeliness, and will not be held liable for any investment decisions made based on this information. Moreover, SGMC Capital is not responsible for any errors or omissions or for the results obtained from the use of such information. All information and estimates included in this report are subject to change without notice. This report is intended for qualified customers of SGMC Capital.

Past performance does not guarantee future results. Investment products are subject to investment risks, including possible loss of principal amount invested. You may not redistribute this report without explicit permission from SGMC Capital.