# August Monthly Review

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

# Global Markets Update

- August was a month of two halves: the first saw a continuation of July's rally, driven by overly optimistic expectations of a dovishly pivoting FED; the second half saw all previous gains quickly wiped out post Jackson Hole on hawkish reiteration by Powell

- The result was another deeply negative monthly performance across indices: S&P -4.24%, Nasdaq -4.64%, Eurostoxx -5.15%, MSCI World -4.33%

- At his speech at the Jackson Hole Symposium US Federal Reserve Chairperson Powell explicitly pushed back on expectations building towards easier policy

- The month-on-month inflation numbers have started to plateau, which is a positive sign, but the headline numbers continue to be at elevated levels, driving continued FED hawkishness

- Various commodities are off the highs from earlier in the year and should this hold will create further downward pressure heading into year end

- Powell's words impacted also the rates markets, with the US 10 year moving from 2.57% to 3.19% in August and the curve remaining ominously inverted with the 2-10 spread at -0.30%

- European rates also moved higher, as expectations for an upcoming 0.75% hike by the ECB increased, bringing the 10 year Bund rates from 0.90% to the current 1.54%

- Geopolitical risks remain high, as Ukraine and Taiwan related tensions are unlikely to abate anytime soon

- The upcoming jobs data and, later in the month, inflation data, will set the tone for markets in September

- The Volatility Index jumped from 20 to the current 26, but remains well below the peaks seen during the June and March corrections, where the Index reached over 35

## Powell sobers expectations …

As we had anticipated the US Federal Reserve has pushed back on easing expectations and have indicated that rates will likely stay high for longer

## Key markets

| Index | Month to Date (%) | Year to Date (%) |
|---|---|---|
| Topix | 1.18 | -1.46 |
| Hang Seng China Enterprises | -0.30 | -16.65 |
| Dax | -4.81 | -19.20 |
| Euro Stoxx 50 | -5.15 | -18.17 |
| S&P 500 | -4.24 | -17.02 |
| Dow Jones | -4.06 | -13.29 |
| Nasdaq 100 | -5.22 | -24.80 |
| US 10 Year Treasury | 0.54 | 1.68 |
| Bloomberg Barclays Global Aggregate Index | -3.95 | -15.55 |
| Bloomberg Barclays Global Corporate Bond High Yield Index | -1.51 | -14.81 |
| EUR USD | -1.62 | -11.57 |
| USD JPY | 4.27 | 20.75 |
| Gold | -3.11 | -6.46 |

- All equity market indices remain deep in the red for 2022, with only Japan (Topix) posting a positive month of August and a yearly negative single digit performance

- Important to note how all asset classes have had a bad year so far: even gold is down over 6%

- European indices continue their recent underperformance, with the DAX and Eurostoxx now having a worse year than the S&P. We had been warning of this since the second quarter

- USD strength continues: so far it has appreciated over 11% against the EUR, breaking parity for a few trading days

## SGMC Forward Views

| SGMC Forward Views | | | | | | |
|---|---|---|---|---|---|---|
| **Asset Class** | **Avoid** | **Reduce** | **Hold** | **Add On** | **High Conviction** | **Notes** |
| **Equities** | | | | | | |
| US Equities | | | | | | Use current correction to selectively add to fundamentally strong companies |
| EU Equities | | | | | | Structural, geopolitical and energy risks make us more bearish on European equities |
| Chinese Equities | | | | | | Valuations are attractive, but headlines risks remain |
| Emerging Market Equities | | | | | | Strong US dollar and risk off environment will likely hurt EM equities in the short term |
| **Bonds** | | | | | | |
| High Yield | | | | | | Likelihood of further credit spread widening in the short term due to increased recession fears |
| Investment Grade | | | | | | Absolute yields are now attractive in the belly of the curve (4 - 6 years maaturity) |
| Government Bonds | | | | | | Rates likely to increase putting pressure on prices |
| **FX & Alternative Asset Classes** | | | | | | |
| US Dollar Index | | | | | | USD appreciation potential is largely priced in but USD now provides an attractive cash management |
| Commodities | | | | | | Large run up in commodities largely done unless further escalation in geopolitics |
| Private Equity / Hedge Funds | | | | | | We expect private markets to be marked down and follow the correction largely seen in public markets |
| Real Estate | | | | | | Rentals will continue rising providing good yields, but prices will come under pressure with increased mortgage rates |
| Collectibles | | | | | | Uncorrelated with markets |

- We expect September to continue being very volatile and challenging for equity markets
- Renewed hawkishness by the FED, a likely upcoming 0.75% hike by the ECB, global growth slowdown and continued geopolitical tensions will make it hard for any rally to be sustained
- This being said, the correction will give rise to excellent opportunities for the longer term investor, especially in American assets, our favored geographical area. We will look to use the decline in valuations and rise in volatility to enter into strong, solid names
- On the other hand, we remain very cautious on European equities: the energy problem, Ukraine tensions, stubbornly high inflation which, unlike in the US, has still not peaked, as well as the upcoming raise in interest rates by the ECB are big risks which still need to priced by the market
- In the fixed income space, the belly of the curve (4 to 6 years maturity) provides good value for investment grade USD denominated paper, and we will look to add to this space upon weakness

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