

September Monthly Review Dabih Investments

A summary of key events and market trends during the month of September followed by your dedicated portfolio performance analysis.

Global Markets Update

- The Summer equity rally quickly gave way to a rude awakening: global equity indices closed September at their yearly lows, hurt by a souring mood post negative inflation readings and fears of a looming macroeconomic slowdown
- The overall market move was brutal, with monthly returns ranging from -9.34% for the S&P500, -10.50% for Nasdaq and -5.66% for Eurostoxx, bringing yearly negative equity returns to an average of over -25%, meaning a quarter of valuations have been wiped out in 2022
- Corporate bonds are not faring better due to both an increase in interest rates (US 10-year rates moved up from 3.26% to 3.78%) and credit spread widening, bringing yearly losses to -19.89%, the worst result in recent history
- The main issue remains inflation expectations: while the August print seemed to show that peak inflation was behind us, last month's data worried investors, as it highlighted the stickiness of the current inflationary environment: core CPI came in at a higher than expected +6.3% year on year
- This means the Fed will need to inflict more pain to the economy and slow growth more aggressively than initially anticipated. More importantly, we believe the only way for inflation to substantially come down is for unemployment to increase, creating cascading negative effects to the economy
- Unsurprisingly, in this environment the USD continued strengthening, with the DXY index appreciating by over 3%
- Geopolitical tensions further heated up, with the Russian annexation of Ukrainian land creating a dangerous environment
- We are now approaching oversold territories across most asset classes and are only about 7% away to pre-covid highs in US equities. We are likely to test those levels but would foresee a strong tactical rebound from those levels at least in the short term

Stickier inflation...

The latest CPI prints in Europe and US highlighted the difficulty required in bringing inflation numbers down.

We believe only higher unemployment can structurally decrease inflation, meaning more pain needs to be inflicted to the economy.

Portfolio Review

(Refer to Official Statement)

- During September we continued our account de-risking exercise which we started in August and took profit where they were present, also due to increased liquidity requirements
- After the recent outflows, we find ourselves with a small investment portfolio of USD 913k, which is about 10% of our expected average portfolio size
- Given the increased liquidity requirements and as per our conversations, we have refrained from investing further into the market until we have a better visibility of the expected cash flow movements
- Given the smaller size of the portfolio, the statement will show a larger % fluctuation in assets, but as discussed we will hold the current investments as they have great potential and are below our entry levels, and looking at the portfolio holistically we have only a small portion of the expected longer term portfolio size
- To reduce portfolio's volatility while at the same time obtain yield and cash flow, we have partially rotated out of equity and entered into fixed income, with about a third of the portfolio now consisting of corporate bonds. We expect this trend to continue as absolute yields rise together with FED hiking path
- **As of 30th September, our portfolio's investments were experiencing a yearly loss of USD 860k, which on an expected USD 10M average portfolio means -8.60% performance, comparing positively to all other developed asset classes (Eurostoxx -22.80%, S&P500 -24.77%, Nasdaq -32.77%, Bonds -19.89%)**
- We expect a tactical bounce in equity over the coming trading sessions, but as discussed we will not increase exposures until we will have more clarity on the upcoming liquidity requirements for the company
- We also foresee investing the potential further liquidity into fixed income assets as we can now get absolute yields of 6% for good quality and short dated paper

Key markets

Index	Month to Date (%)	Year to Date (%)
Topix	-6.48	-7.85
Hang Seng China Enterprises	-13.85	-28.20
Dax	-5.61	-23.74
Euro Stoxx 50	-5.66	-22.80
S&P 500	-9.34	-24.77
Dow Jones	-8.84	-20.95
Nasdaq 100	-10.60	-32.77
US 10 Year Treasury	19.92	153.53
Bloomberg Barclays Global Aggregate Index	-5.14	-19.89
Bloomberg Barclays Global Corporate Bond High Yield Index	-5.09	-19.15
EUR USD	-2.51	-13.79
USD JPY	4.16	25.77
Gold	-2.95	-9.22

- One of the worst years for financial markets continues, with a September correction weighing further on yearly negative returns
- All developed asset classes are now deep in the red for 2022, including gold
- The strong USD appreciation can be seen especially against the JPY, which has lost over 25% of its value against the Greenback
- Even though the Fed is much further ahead in its hiking path compared to the European Central Bank, yearly equity performances are very similar across the Atlantic (S&P500 - 24.77%, Eurostoxx -22.80%), highlighting the impact of US markets on the rest of the world and signaling that European market remain susceptible to a further correction as the ECB needs to still tighten a lot more
- Both high yield and investment grade bonds have been suffering close to 20% yearly losses, emphasizing that both interest rate increases and credit spreads have impacted the sector

SGMC Forward Views

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Asset Class	Avoid	Reduce	Hold	Add On	High Conviction	Notes
Equities						
US Equities						Use volatility to gain exposure via short puts or deep out of the money Fixed Coupon Notes
EU Equities						Structural, geopolitical and energy risks make us bearish European equities
Chinese Equities						Valuations are attractive, headlines risks remain. Expectations for a bounce post the upcoming Party meeting
Emerging Market Equities						Strong US dollar and risk off environment will continue hurting 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 maturity)
Government Bonds						Rates likely to increase further putting pressure on prices
FX & Alternative Asset Classes						
US Dollar Index						Risk off environment and higher American rates to continue supporting the US dollar
Commodities						Sector prone to further corrections, even though a lot has been discounted in September
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

- June lows have now broken and a further in equity valuations seems likely given the deteriorating macroeconomic and geopolitical environment
- In the short term we are reaching strong support levels and oversold territory, therefore a strong short term bounce cannot be ruled out
- Longer term, the upcoming earnings season will be crucial in better forming forward guidance and analyst estimates for the following quarters
- We remain more supportive of American equities as compared to European ones, as the Ukrainian tensions, energy crisis as well as continued tightening by the ECB will weigh on valuations
- In the fixed income market, we see value in the belly of the curve for both USD and EUR denominated investors, who can now receive 7% and 6% respectively for an investment grade portfolio with an average duration of less than 4 years

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