Belvest

momentum
global investment management

GLOBAL MATTERS
MONTHLY VIEWPOINT

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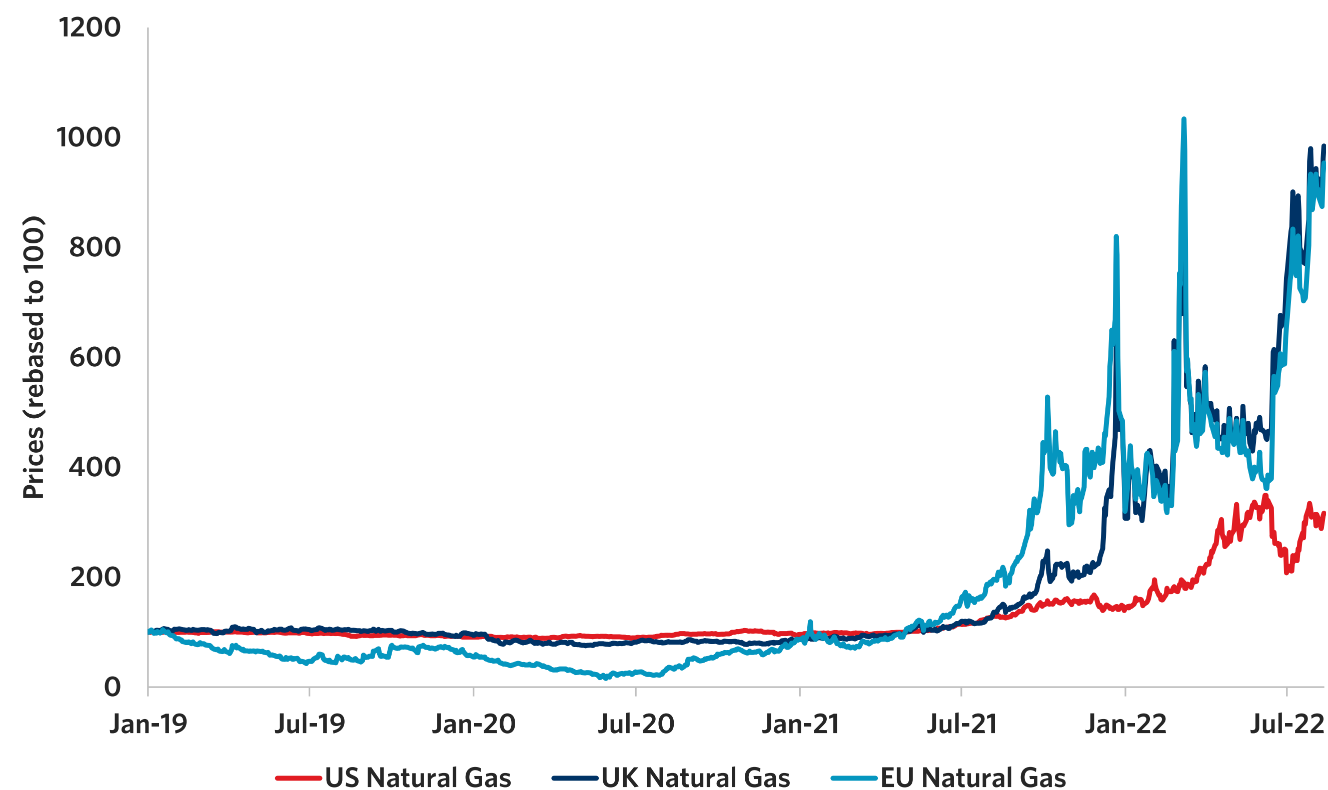
Global Market Review & Outlook

After a torrid six months, with global equities suffering a 20% decline and most developed world sovereign bond markets producing negative returns each month in the first half of this year, there was finally relief in July. Led by Wall Street, with the S&P 500 up over 9% in the month, the MSCI World index returned 7.9%, while the JPMorgan Global Government Bond index returned 1.9%. Riskier parts of the bond market, which had sold off heavily in the first half of the year, recovered sharply, with US investment grade bonds +3.2%, high yield bonds +5.9%, and emerging market debt +4.0%.

In contrast, the weakness in many commodity markets in June continued into July, across gold, oil, agricultural commodities and industrial metals. Many of these prices are back to levels prevailing before the invasion of Ukraine, the key exception being European natural gas prices, which have soared on restricted supplies from Russia via the NordStream pipeline and growing fears of further restrictions in the months ahead. The EU is facing a day of reckoning for its disastrous policy of heavy reliance on Russia for fossil fuels, especially gas, now being used by Putin as a political weapon with the real prospect of gas shortages and rationing to industrial users in some EU countries, notably Germany, in the coming winter.

Natural gas prices soar – Europe most vulnerable

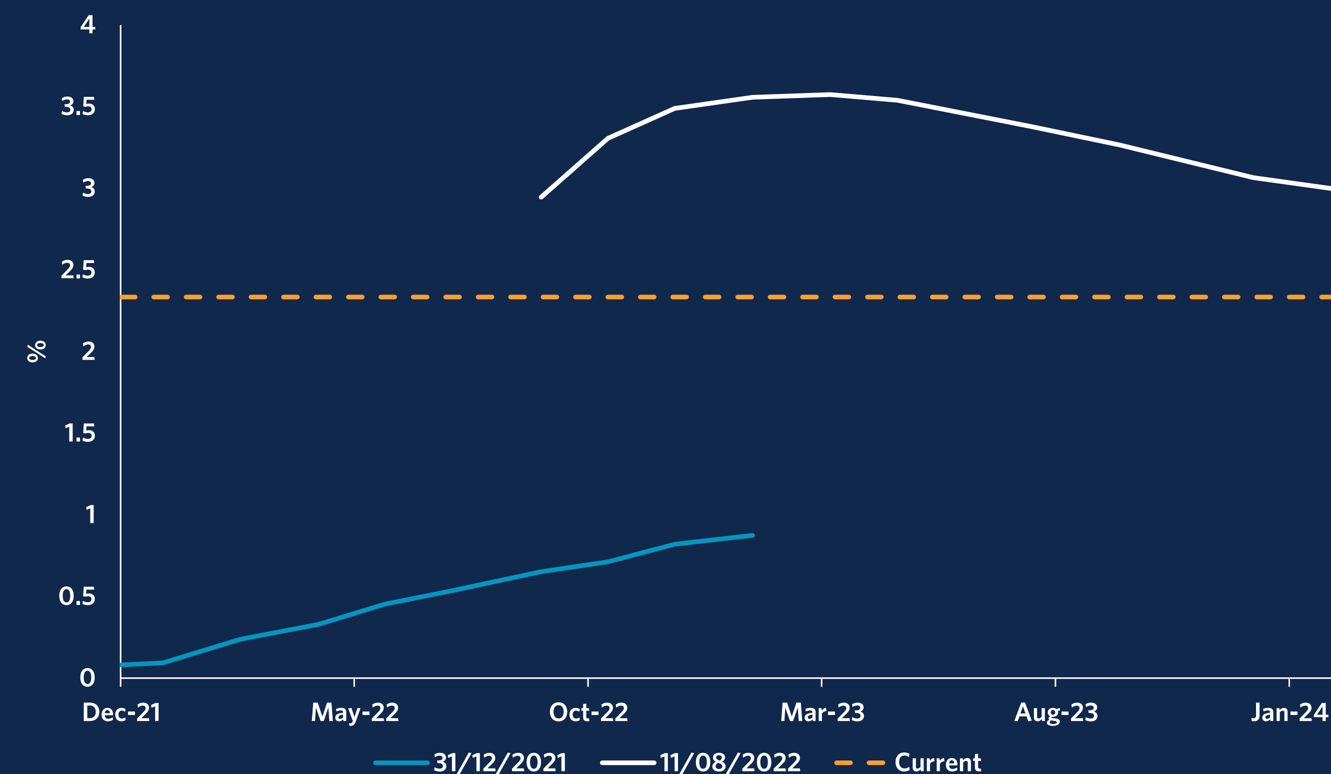


Sources: Momentum Global Investment Management, Bloomberg Finance L.P. as at 11 August 2022.

Evidence mounted of slowing activity in the US and Europe, in the face of high levels of inflation, a squeeze on consumer disposable incomes, and sharp rises in mortgage rates in the US leading to a softening in the housing market. Forward indicators of activity point to a marked slowdown in coming months. As a result, markets increasingly began to discount a relatively short tightening cycle in the US, with the narrative shifting from reining in runaway inflation to avoiding recession. Expectations for the peak in the Federal Funds rate as reflected in market implied policy rates have been brought forward to early 2023, and the terminal rate has fallen to 3.6%.

The extent to which these expectations have shifted this year is illustrated in the chart: at the beginning of this year the market was expecting the Fed's policy rate to be below 1% at the end of 2022, now it is expecting a rate of 3.5%, a pace of tightening not seen since 1994. But the market has become increasingly confident that the front-loading of policy tightening will see rates back at 3% by the end of 2023, underpinned by the Fed's perceived shift in emphasis at its July meeting: as expected, the Fed Funds rate was raised by 75bps for a second successive meeting, but Chairman Powell commented that the Federal Open Market Committee 'paid heed to slowing activity data' and 'at some point it may be appropriate to slow the pace of tightening'.

Market implied Fed Funds rate – front loading tightening

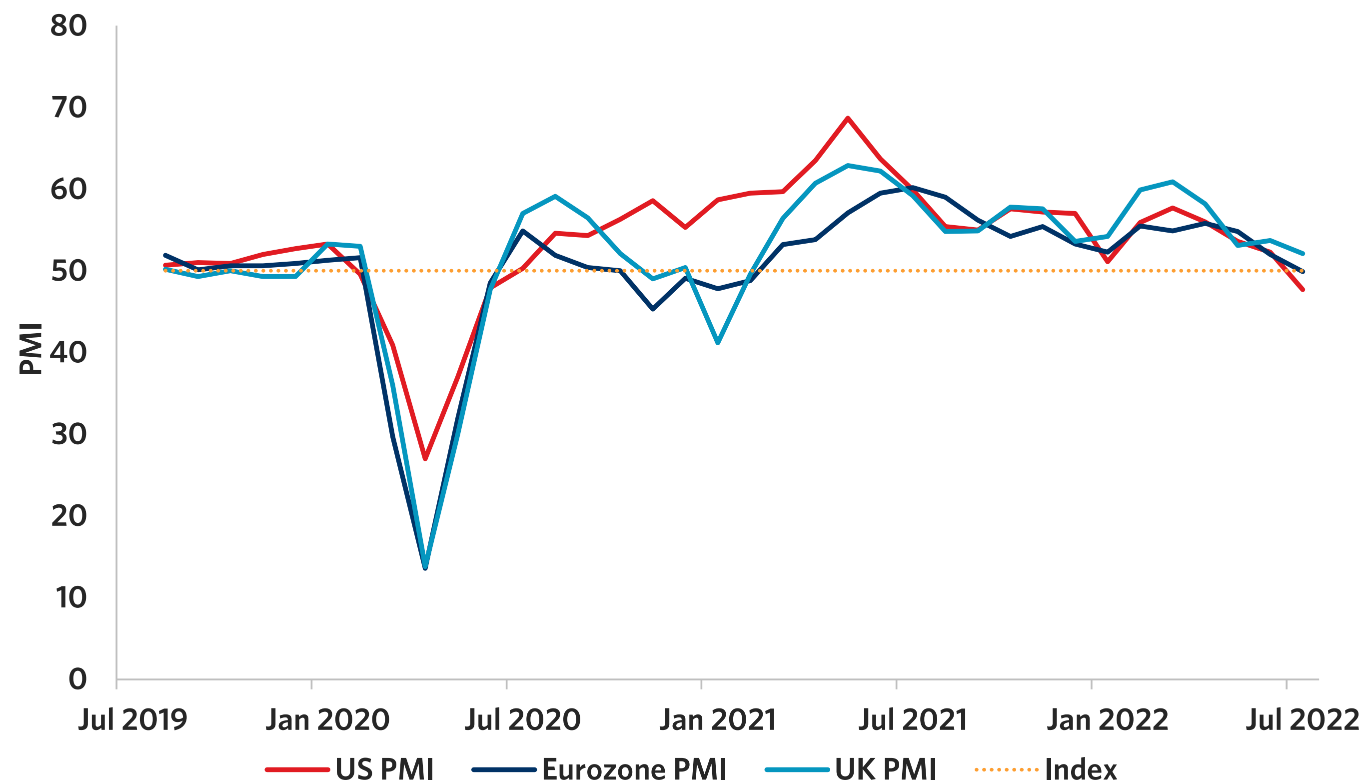


Sources: Momentum Global Investment Management, Bloomberg Finance L.P. as at 11 August 2022.

The growing risk of recession led to a sharp fall in longer dated bond yields and an inversion in the yield curve, often seen as a precursor to recession. The 10-year US Treasury yield fell by 36bps to 2.65% over the month, taking the fall from its peak in mid-June to over 80bps, while shorter dated (2 year) yields were little changed at 2.88% at month end. The combination of broadening evidence of a slowdown and a fall in the longer-term discount rate triggered a sharp recovery in growth stocks, which had been heavily de-rated in the market sell-off in the first half of the year, and a setback in economically sensitive value stocks, which had enjoyed strong relative returns in the preceding 6 months.

The dramatic shift in the Fed's policy over the past 9 months illustrates the intense uncertainty that overhangs economies and financial markets, and has led in effect to abandoning forward guidance; the Fed will now take policy decisions on a meeting-by-meeting basis. The European Central Bank (ECB), which made its first rate hike in this cycle in July following a run of above-expectation inflation numbers, which saw Eurozone inflation reach 8.6%, took a similar approach to the Fed by abandoning forward guidance. The shift by the ECB to inflation-fighting is historic. It is the first rate rise in 11 years and at 0.5% the largest in over two decades; it ends the era of negative rates - and yet only twelve months earlier euro rates were priced to stay negative for most of the decade. Like the Fed, the ECB is running down its balance sheet with the reverse of quantitative easing, and announced its anti-fragmentation tool, the Transmission Protection Instrument, to prevent disorderly bond markets and yield spikes in high debt Eurozone countries, for which read Italy, whose well-publicised problems have been compounded by the fall of the government and PM Draghi.

Composite PMIs point to sharp slowdown ahead



Sources: Momentum Global Investment Management, Bloomberg Finance L.P. as at 31 July 2022.

China continues to move to a very different cycle. Its zero covid policy is damaging growth and compounding the problems caused by the crackdowns on the huge property industry and big tech companies. The housing market is mired in the doldrums, with home prices and new home sales falling and many developers facing financial difficulties. The economy grew by only 0.4% year-on-year in Q2 compared with 4.8% growth in Q1, making Beijing's target growth rate of around 5.5% unachievable, and now dropped, with instead an official aim to 'achieve the best results possible' for the economy. China's inexorable slowdown to more sustainable long-term growth of 2-3% p.a. is well underway, but with government stimulus measures being introduced, consumer price inflation subdued at 2.7%, and the prospect of an end to covid restrictions, the second half of the year should see improved growth, and after a near 10% fall in July and 50% from its peak 18 months ago, China's equity market is offering some valuation opportunities for long-term investors.

There remains considerable uncertainty ahead. The world is entering a marked slowdown, monetary policy tightening across the developed world has further to run, liquidity reductions by the Fed and other large central banks are at an early stage, companies face much more challenging conditions with sales and margins likely to be under pressure, and the war in Ukraine might yet present its biggest challenge to the West, and especially Europe, in the winter months ahead. The rally in markets in recent weeks is welcome, but further periods of volatility and setbacks in markets are very likely.

But much has already been discounted, and the key central bank, the Fed, is well into its tightening cycle. Peak inflation is close, and the change in direction will be an important shift for markets, while peak interest rates are more clearly in sight. We are likely to see lower volatility of both rates and bond yields in coming months, with the biggest moves behind us. Unlike the Global Financial Crisis, this cycle is not driven by the need for financial deleveraging, and balance sheets of households, businesses and banks are generally strong. This will help to minimise the slowdown ahead and gives the scope for economies to bounce back quite quickly. At the same time, valuation opportunities have opened up for longer-term investors. With careful diversification, we believe it is important to take advantage of setbacks in markets as the cycle evolves and ride out any short-term volatility to participate in full in those longer-term opportunities.

"The rally in markets in recent weeks is welcome, but further periods of volatility and setbacks in markets are very likely"

Market Performance - *Global (local returns) as at 29 July 2022*

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	9.2%	0.3%	-12.8%	-5.1%
United Kingdom	MSCI UK NR	GBP	3.8%	-0.3%	5.2%	12.7%
Continental Europe	MSCI Europe ex UK NR	EUR	8.0%	-1.9%	-10.9%	-5.7%
Japan	Topix TR	JPY	3.7%	2.4%*	-1.2%*	4.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.0%	-5.5%	-15.6%	-17.9%
Global	MSCI World NR	USD	7.9%	-1.3%	-14.2%	-9.2%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	0.5%	-11.7%	-76.9%	-77.1%
Emerging Asia	MSCI EM Asia NR	USD	-1.3%	-5.7%	-18.3%	-20.4%
Emerging Latin America	MSCI EM Latin America NR	USD	4.3%	-6.4%	3.7%	-8.8%
China	MSCI EM China NR	USD	-3.6%	-3.3%	-20.0%	-25.3%
BRICs	MSCI BRIC NR	USD	-9.5%	-2.4%	-19.7%	-28.3%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.2%	-6.5%	-17.8%	-20.1%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	1.7%	0.9%	-7.4%	-8.3%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	4.5%	-0.2%	-5.6%	-4.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	3.2%	1.3%	-11.6%	-12.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	5.9%	-1.0%	-9.1%	-8.0%
UK Gilts	JP Morgan UK Government Bond TR	GBP	2.8%	-2.3%	-12.2%	-14.1%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	2.8%	-1.4%	-10.0%	-11.8%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	4.1%	0.3%	-8.7%	-10.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	4.7%	-0.2%	-7.7%	-9.3%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	5.1%	-3.4%	-10.1%	-10.1%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	0.7%	-0.5%	-2.4%	-3.0%
Australian Government	JP Morgan Australia GBI TR	AUD	3.7%	1.1%	-6.9%	-9.8%
Global Government Bonds	JP Morgan Global GBI	USD	1.9%	-1.2%	-12.5%	-15.5%
Global Bonds	ICE BofAML Global Broad Market	USD	2.2%	-0.7%	-12.3%	-15.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	4.4%	-4.2%	-16.2%	-18.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	4.0%	-2.0%	-23.7%	-25.3%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	8.9%	-5.5%	-13.7%	-3.7%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	11.9%	-9.7%	-16.2%	-5.6%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	-0.7%	-1.8%	-5.1%	-10.7%
Global Property Securities	S&P Global Property USD TR	USD	6.8%	-6.1%	-13.9%	-9.4%
Currencies						
Euro		USD	-2.5%	-3.1%	-10.1%	-13.9%
UK Pound Sterling		USD	-0.1%	-3.2%	-10.1%	-12.5%
Japanese Yen		USD	1.8%	-2.6%	-13.6%	-17.7%
Australian Dollar		USD	1.2%	-1.1%	-3.8%	-4.9%
South African Rand		USD	-2.1%	-4.9%	-4.1%	-12.1%
Commodities & Alternatives						
Commodities	RICI TR	USD	0.9%	-6.4%	24.2%	34.2%
Agricultural Commodities	RICI Agriculture TR	USD	-2.3%	-14.1%	6.4%	19.8%
Oil	Brent Crude Oil	USD	-4.2%	0.6%	41.4%	44.1%
Gold	Gold Spot	USD	-2.3%	-6.9%	-3.5%	-2.7%
Hedge funds	HFRX Global Hedge Fund	USD	0.5%*	-2.4%*	-4.6%*	-4.2%*

Interest Rates	Current Rate
United States	2.50%
United Kingdom	1.25%
Eurozone	0.50%
Japan	-0.10%
Australia	1.35%
South Africa	5.50%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimate*

Market Performance - *UK (all returns GBP) as at 29 July 2022*

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	3.8%	-0.3%	5.2%	12.7%
UK - Large Cap	MSCI UK Large Cap NR	GBP	2.5%	0.2%	11.4%	20.1%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	8.6%	-4.6%	-18.0%	-14.7%
UK - Small Cap	MSCI Small Cap NR	GBP	8.2%	-3.0%	-16.1%	-15.1%
United States	S&P 500 NR	USD	9.3%	3.6%	-3.0%	8.4%
Continental Europe	MSCI Europe ex UK NR	EUR	5.1%	-2.0%	-11.2%	-7.4%
Japan	Topix TR	JPY	5.6%	3.0%*	-5.4%*	-1.7%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.1%	-2.4%	-6.2%	-6.2%
Global developed markets	MSCI World NR	USD	8.0%	2.0%	-4.6%	3.7%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.2%	-3.3%	-8.6%	-8.7%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	2.7%	-2.4%	-12.4%	-14.4%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.6%	0.3%	-1.5%	-2.6%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	2.9%	0.6%	-6.2%	-8.4%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	3.8%	-6.2%	-21.9%	-24.0%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	5.5%	-7.4%	-18.5%	-17.9%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	4.6%	-1.3%	-4.1%	-1.9%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	6.7%	-11.7%	-26.9%	-26.9%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	2.8%	-1.4%	-10.0%	-11.8%
US Treasuries	JP Morgan US Government Bond TR	USD	1.5%	4.1%	3.1%	4.7%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	3.0%	4.5%	-1.6%	-0.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	5.9%	-1.0%	-9.1%	-8.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	4.1%	0.3%	-8.7%	-10.7%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	4.7%	-0.2%	-7.7%	-9.3%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	5.1%	-3.4%	-10.1%	-10.1%
Global Government Bonds	JP Morgan Global GBI	GBP	2.0%	2.1%	-2.7%	-3.5%
Global Bonds	ICE BofAML Global Broad Market	GBP	2.2%	-0.7%	-12.3%	-15.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	4.4%	-4.2%	-16.2%	-18.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	4.1%	1.3%	-15.1%	-14.6%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	6.8%	-3.0%	-4.2%	3.5%
Currencies						
Euro		GBP	-2.5%	0.1%	-0.2%	-1.7%
US Dollar		GBP	0.1%	3.3%	11.1%	14.2%
Japanese Yen		GBP	1.9%	0.6%	-4.0%	-6.0%
Commodities & Alternatives						
Commodities	RICI TR	GBP	1.0%	-3.3%	38.1%	53.3%
Agricultural Commodities	RICI Agriculture TR	GBP	-2.2%	-11.2%	18.4%	36.9%
Oil	Brent Crude Oil	GBP	-4.1%	4.0%	57.3%	64.6%
Gold	Gold Spot	GBP	-2.2%	-3.8%	7.4%	11.2%
Interest Rates				**Current Rate**		
United Kingdom				1.25%		

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimate*

Asset Allocation Views

Main Asset Classes	Change	Negative	Neutral	Positive
Equities	-	○ ○	●	○ ○
Fixed Income	-	○ ●	○	○ ○
Alternatives	-	○ ○	○	● ○
Cash	-	○ ○	○	● ○

Our Overall View

We continue to favour equities over fixed income in recognition of their better return potential and inflation capture over time. Despite the recent sharp repricing, most fixed income remains expensive in real terms today but valuations have improved. Alternatives are attractive for their diversifying qualities as much as the return potential, while cash offers increasing return and optionality in the event of market weakness, as we have seen.

EQUITIES	Change	Negative	Neutral	Positive
Developed Equities	-	○ ○	●	○ ○
UK Equities	-	○ ○	○	● ○
European Equities	-	○ ○	●	○ ○
US Equities	-	○ ●	○	○ ○
Japanese Equities	-	○ ○	○	● ○
Emerging Market Equities	-	○ ○	●	○ ○

Equities offer improving return potential after recent weakness. Financial conditions have tightened, but by historical standards are not restrictive, and excess savings and strong labour markets should support the consumer in the near term. The UK continues to trade at a discount and is well positioned sectorally to benefit should a softer landing eventuate. We also favour Japan on valuation grounds and for the accompanying Yen exposure. European equities have cheapened but fundamental risks, notably around energy pricing, caution against increasing today.

FIXED INCOME	Change	Negative	Neutral	Positive
Government	▲	○ ●	○	○ ○
Index-Linked	-	○ ●	○	○ ○
Investment Grade Corporate	-	○ ●	○	○ ○
High Yield Corporate	-	○ ○	●	○ ○
Emerging Market Debt	▲	○ ○	○	● ○
Convertible Bonds	▼	○ ●	○	○ ○

Bonds remain expensive today despite sovereign yields having moved higher again last quarter, although concerns around a slowdown in global growth have seen buyers come back to the market more recently. Inflation linked bond valuations have now largely normalised as anticipated inflation rolls over. In credit we prefer higher yielding, short duration bonds, including emerging markets. Convertible bonds are less attractive with equities and credit presenting better opportunities today.

REAL ASSETS / ALTERNATIVES	Change	Negative	Neutral	Positive
Commodities	-	○ ○	●	○ ○
Property	-	○ ○	●	○ ○
Infrastructure	-	○ ○	○	● ○
Liquid Alternatives	-	○ ○	○	● ○
Private Equity	▼	○ ○	●	○ ○

Real assets and alternatives continue to look attractive on both fundamental and valuation grounds, and as portfolio diversifiers with quality bonds taking considerable interest rate pain. Commodities remain volatile but with a slowdown in growth further gains in aggregate will be harder to come by. Private equity offers an alternative source of portfolio growth but is being pulled lower by public market valuations. Discounts abound but may not close imminently. Infrastructure enjoys structural tailwinds from digitalisation and energy transition initiatives.

CURRENCIES *vs. USD*	Change	Negative	Neutral	Positive
GBP	-	○ ○	○	● ○
EUR	-	○ ○	●	○ ○
JPY	-	○ ○	○	● ○
Gold	▼	○ ○	●	○ ○

Sterling and Yen are mildly favoured following their recent repricing lower. The latter's (usually) diversifying qualities also retain some added portfolio attractiveness. The Euro continues to struggle in the face of relative rate expectations and more localised economic and political considerations. Gold has inflation protection qualities vs. the fiat currencies, plus haven qualities that are attractive, but looks less good value today.

The Asset Allocation views are as of June 2022 and are updated quarterly unless otherwise stated.

"Real assets and alternatives continue to look attractive on both fundamental and valuation grounds"

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