Trillium SA

manavest

# Quarterly Outlook and Market Commentary

July 2022

## Market Commentary

**2022 One of the toughest year so far:**

- Investors have nowhere to hide.
- "Déjà vu" type of drawdowns for equities but NOT within this magnitude for bonds
  - Drawdowns in tightening phases for equities AND bonds
- US, CH, EUR investors have rarely seen such negative performances
- Various geopolitics tensions and conflicts remains

**Global Economic Cycle: Desynchronized economies with some challenges:**

- Credibility of Central Banks with regards to inflation will remain the priority
- Potential Company earnings revisions
  - Equities are caught between inflation and earnings concerns
  - Company Profits are seen as the next potential pressure point
  - Figures just don't add up and markets are pricing some inconsistencies
- Consumer confidence and spendings could slow down, as uncertainties drive consumer sentiment lower

**Inflation is the main reason for this difficult start of the year:**

- Global inflation remains out of range: urgence for Central banks to act in the short term
- Long-term inflation above target: The credibility of Central banks is at stake

## Asset Classes

- **Fixed income** is back on track with rising yields, the attractiveness of the bond market could become a real competition for equities. But be careful to real yields that remain in negative territory due to high inflation level. Favor government bonds over corporate credit.
- **Equity** valuations are attractive and at oversold levels. Despite volatility, opportunities can be found (defensive, dividend, growth at reasonable price). However, attractiveness (valuation) of equities will be challenged if company earnings are revised downward.
- **Commodity** prices might decrease as Central banks fight inflation and as global slowdown will decrease commodity demand.
- **Gold:** As interest rates increase, non-yielding assets such as gold are under pressure. However, as the outlook appears fragile with increasing fears of a global slowdown or even fears of recession, gold remains a useful long-term strategic component for balanced portfolios

## US and Europe

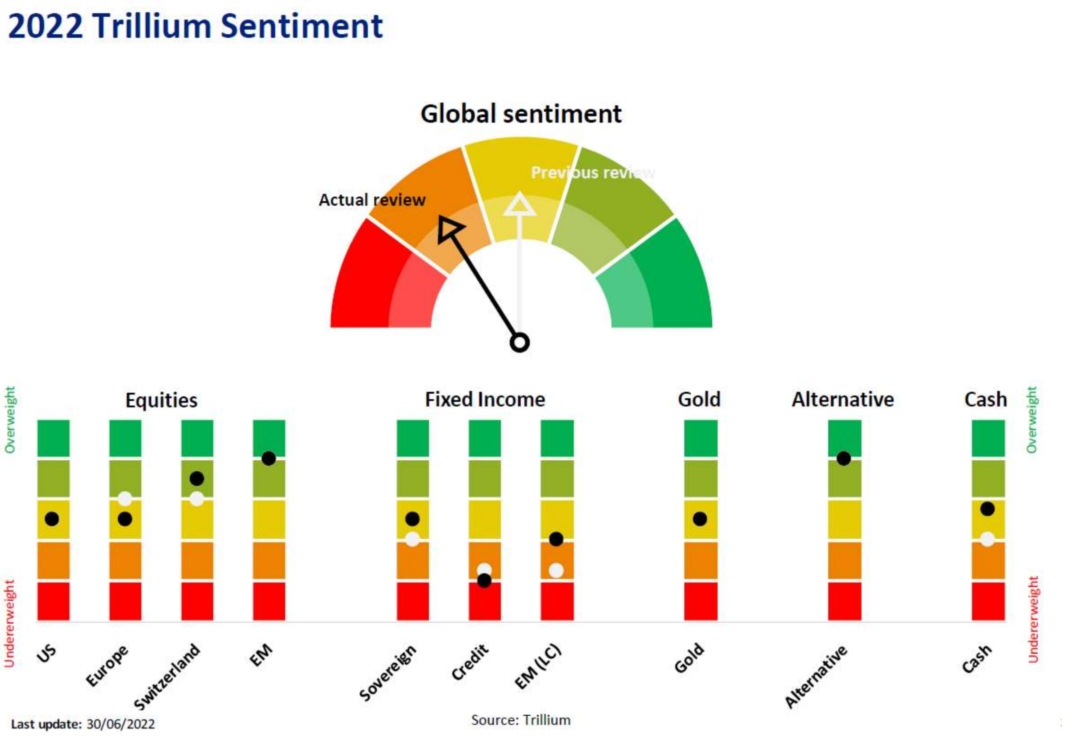
- The transition toward a normal mid-cycle economy continues. Growth expectations are under pressure around the globe and become victims of the "whatever it takes" to bring down inflation.
- The FED's main priority remains to cool down inflation

- US activity is slowing down, tighter monetary policy and softer-than-expected consumer spending increase the risk of recession in the US:
  - HOPE: Housing, Orders, Productivity, Employment
  - US 1Q22 GDP in negative territory
  - Degradation ongoing since Q4.2021
- The ECB has no other choice than to follow the FED as inflation surges as well in the Eurozone. Its first interest rate hike is expected in July 2022.

## Emerging Markets

- **Optimism** is growing for the rest of the year even if Emerging Markets have experienced a brutal selloff in the first half of 2022 and there might be a normalization of their economies.
- **Opportunitie**s are rising within Emerging Markets
  - EM Equities have begun to outperform most of their peers.
  - Discount in valuation remains below long-term average
- Increasing interest rates in developed economies, surge in the USD as well as the usual structural and geopolitical headwinds represent remain the **main challenges** for Emerging economies
- **China** is slowing down but the momentum is improving.
  China’s economy challenges (Covid, some sectors’ regulation, monetary and fiscal expectations, … ) potentially impacting market performance.
  And Despite China’s normalization, the rest of Asia presents solid fundamentals

## 2022 Trillium Sentiment



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