# Quarterly Outlook and Market Commentary

October 2022

## Market Commentary

The 2022 freefall continued during the last quarter, especially in September

- All asset classes extended their 2022 losses during the third quarter
- Energy and commodity sectors managed to keep positive returns
- Unusual drawdowns for fixed income
- The overall volatility and intraday volatility increased over the past quarter

Global inflation remains out of range: Urgency for Central Banks to act rapidly

- Inflation remains above acceptable levels: fight against inflation will remain centre stage for Central Banks as it challenges their credibility
- The short-term objective of the FED remains to cool down the inflation "at any cost" – the ECB has no other choices than to follow the FED as inflation continues to increase in Europe

Growth expectations are under pressure around the globe – victims of the whatever it takes from Central Banks to bring inflation under control

- The transition toward a normal mid-cycle economy continues:
- Tighter monetary policy and softer-than-expected consumer spending. Increasing risk of recession
- There is a higher probability of a recession in EU (80%) than in the US (50%)
- Earnings might be next in line for downward revision

Despite this complex environment: Opportunities can be found (defensive, dividend, able to grow at a reasonable price, pricing power companies, …).

## United States

Inflation

- The outlook for equity markets remains challenging, dominated by the risks associated with higher inflation and aggressive monetary policy deployed by the FED
- Without any clear sign of weaker "core" inflation, the FED will continue its "whatever it takes" policy with the risk of sending the economy into a recession. The FED main objectives remain fighting inflation and consequently policy normalization
- Very recently, the US are showing some first signs of economic cool down, as inflation decreases marginally

However, investors and market participants are still waiting for clear and unequivocal signs that inflation is really coming down

Growth

- Challenging backdrop for US equities: But there is light at the end of the tunnel as the latest economic figures show that the US economy is cooling down
- Macro and micro (earnings) forecasts have continually been revised downward during the year, both for 2022 and going forward for 2023. The US equity markets will remain under pressure with slower economic growth, higher input costs and higher wages due to a more-resilient-than-anticipated job market (unemployment remains at its lowest level)
- The main question is: Have we reached the bottom? US stocks are already pricing in quite a lot of bad news. The S&P 500 is down about 23%, and it suggests that a moderate recession is already largely priced in.

## Europe

- The economic outlook is expected to deteriorate further in Europe, emphasized by the energy crisis, the weakening euro and the slowing manufacturing activity. Latest eurozone manufacturing and service PMIs in contraction territory (48.4 and 48.8), confirming slowing economic activity, recession risk and stagflation concerns.
- “Winter is coming” in Europe: for growth, economic activity, consumption and investors, as the main scenario in Europe for the next 12m is a stagflation scenario based on energy crisis, peaking inflation and decreasing economic activity, holding back consumer spending and business production.
- Despite a rebound in economic momentum over the summer, the economy remains at risk as rate hikes and policy normalization start slowly to take effect, while inflation has reached its highest level at 10.0%
- As winter approaches, the potential energy crisis could be an additional test of EU unity, as uncertainty around gas supplies and reserves persists. Reduced gas inflows from Russia means that Europe will rely on existing storage capacity and will ask its population to reduce consumption to get through the winter

## Emerging Markets

Overall view:

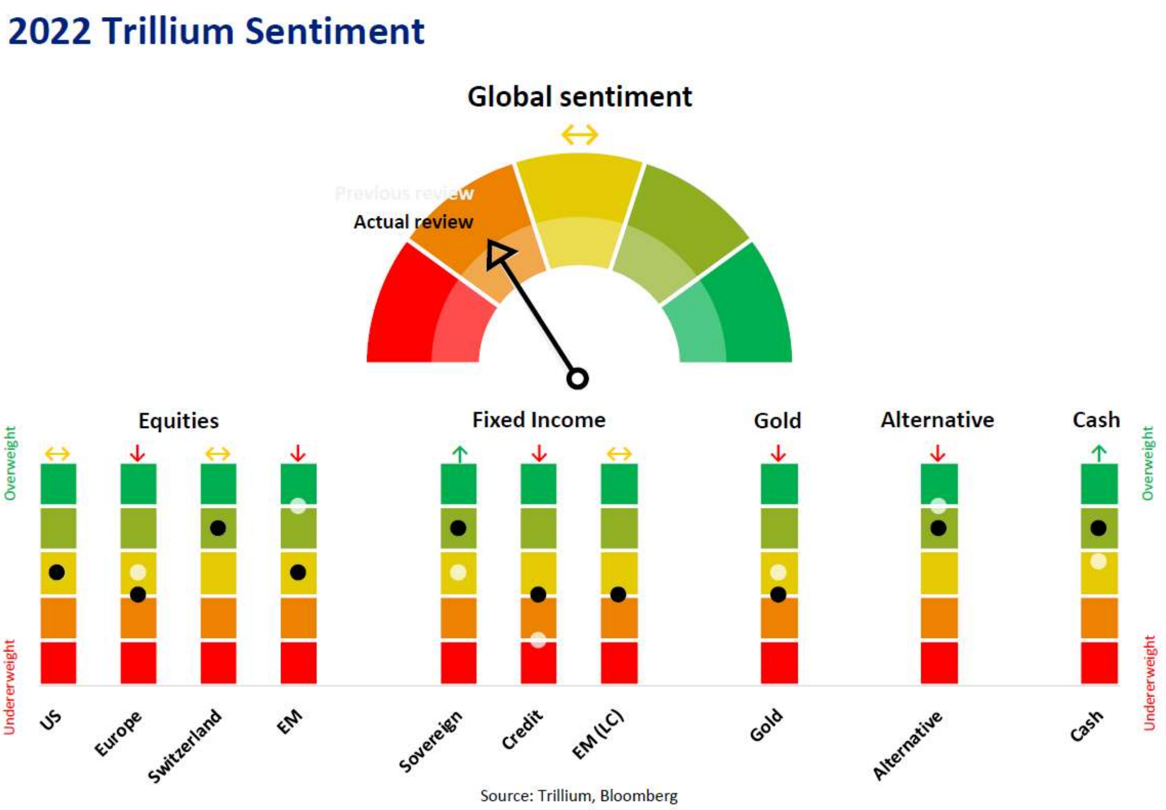
- The outlook for Emerging markets (EM) is challenging on the short run: mixed macro data, negative momentum (Asia and commodities), impacts from Developed market’s (DM) central bank actions, strengthening USD as well as global economic slowdown
- Although EM won’t escape from the global growth rate normalization, they should continue to post above average GDP growth numbers for the next couple of years,

remaining above DM. In addition the discount in valuations between EM and DM persists, which continues to offer an interesting entry point for investors

China :

- In addition to the overall economic slowdown, activity in China is also impacted by the struggling housing market as well as the zero Covid policy. Near-term performance of the Chinese equity market (domestic) will depend on the evolution of these two factors
- China's relationship with the US will also remain an important topic for investors, especially with regard to Taiwan as well as the technology sector. Economic relations between the two countries seem to be deteriorating further as shown by the latest measures taken by President Biden on semiconductors

## 2022 Trillium Sentiment



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