CITĒ GESTION

Newsletter : Close to a Peak in Yields? | May 2022

Key Take-Aways

- Overall, April has been a particular difficult month for investors. The impact of the Russia-Ukraine conflict on the economy is getting more intense while successive closures in China are blocking or slowing supply chain.

- For the first time in years, both the S&P 500 and the Nasdaq are down for the fifth week in a row (8,72% and -13,24% respectively). The dollar index increased to 102,959, a level not seen in 20 years. Commodities continue to rise and volatiliy increased by 12,84 points to 33,40.

- Global growth outlook has deteriorated with accelerating Fed hike cycle and persistent inflation. US GDP declined in the first quarter unexpectedly for the first time since 2020. Growth contracted a -1.4% instead of expected +1%.

- The Fed hiked rates by 50bps on May 4th and announced the start of quantitiative tightening for the month of June. The initial pace of reduction is at USD 47,5 billion per month and will be increased to USD 95 billion after 3 month.

- Fixed income continues to suffer, the Bloomberg US Aggregate Total Return Index is down 9,5% YTD. This is worse than in 1980 but we can hope for a «soft-landing». In 1980, the index fell by 8,8% during Q1 but ended up 2,71% at the end of the year.

- If inflation is about to peak and if the Fed regains its credibility by controlling inflation without strangling the economy, then this may well be a fairly good entry-point for bonds.

- Volatitly remains very high, as on average, year-to-date intraday price movement came close to 2%. We saw some significant correction in some mega caps (Netflix at -49%, Amazon at -24% and Alphabeth at -18% in April) but the season has been positive with 78% of the companies in the S&P 500 reporting better than expected profits.

- European equities performed better than US equities but we expect the ECB to start rising rates in the next few months. Price movement are expected to remain high.

Review : April 2022

Expectations and anticipations.

April has been a particularly complicated month for investors, with negative equity and bond indexes, on the backdrop of continuous war in Ukraine, lockdowns in China and a Fed that is expected to sharply tighten its monetary policy.

On this last point, the market is now pricing in three successive 50 basis point hikes.

The conflict in Ukraine is getting bogged down and intensifying in the east and south of the country, and its impact is increasingly felt on the economy, especially in Europe, which is still heavily dependent on Russian oil and gas.

As for the successive closures in China to combat the resurgence of Covid, they are weighing on the Chinese market but also on the global economy, which is seeing supply chains slowed or stopped.

US indexes ended the month in the red, with the S&P500 down -8.72%, the Russell 2000 down 9.91% and the Nasdaq down 13.24% bringing its year-to-date performance to -21%.

In Europe, the more defensive indices finished in the green with the FTSE 100 closing up 0.69% and the SMI up 0.85%, while the EuroStoxx50 fell -1.98%,

In the rest of the world, the main indices followed the US trend, with the Nikkei closing at -3.5%, the CSI300 at -4.82 and the MSCI ACWI at -7.97%.

In terms of sectors, energy and utilities continued to rise, both in the US and in Europe.

The dollar index continued to strengthen, reaching 102.959, a level not seen for 20 years.

EUR/USD depreciated by -4.72% and GBP/USD by -4.29%, USD/CHF rose by +5.34% and USD/JPY +6.57%.

The US 10 year yield closed the month at 2.93%, up 60bps. The bund yield rose by 39bps, almost reaching 1%. Bond indices continued to fall, with the Bloomberg Global Aggregate Index and the JPMorgan EMBI both contracting by 5.48%, the Bloomberg Global High Yield Index by 4.59% and the Bloomberg Core Developed Government Index by 2.99%.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4,132	-3.62	-3.26	-8.72	-8.72	-12.92	17
Nasdaq	12,335	-4.17	-3.92	-13.24	-13.24	-21.00	21
Russell 2000	1,864	-2.81	-3.94	-9.91	-9.91	-16.70	16
Euro Stoxx 50	3,803	0.74	-0.65	-1.98	-1.98	-10.67	11
Stoxx 600 EUR	450	0.78	-0.43	-0.57	-0.57	-6.41	12
FTSE 100	7,545	0.47	0.40	0.69	0.69	3.60	10
SMI	12,129	0.50	-0.99	0.85	0.85	-3.46	15
NIKKEI 225	26,848		-0.95	-3.50	-3.50	-5.92	14
CSI 300 China	4,016	2.47	0.12	-4.82	-4.82	-18.64	10
MSCI EM Index	1,076	2.13	0.09	-5.55	-5.55	-12.13	10

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4,132	-3.62	-3.26	-8.72	-8.72	-12.92	17
UTILITIES	362	0.80	-4.05	1.24	-4.25	0.32	19
ENERGY	572	2.91	-1.23	10.17	-1.54	36.85	11
TELECOM	198	-1.31	-4.09	1.06	-15.62	-25.68	14
CONS STAPLES	811	-0.04	-2.05	-1.34	2.56	1.53	21
REAL ESTATE	291	-1.02	-5.65	-3.78	-3.56	-9.66	38
CONS DISCRET	1,272	-1.31	-7.88	-3.37	-13.00	-20.85	20
MATERIALS	534	-1.37	-0.82	-0.56	-3.49	-5.79	15
HEALTH CARE	1,518	-0.30	-2.51	-0.45	-4.71	-7.16	16
INFO TECH	2,478	-0.79	-1.26	-0.67	-11.28	-18.70	20
FINANCIALS	574	-0.72	-4.53	0.57	-9.87	-11.21	12
INDUSTRIALS	805	-0.65	-3.31	0.35	-7.53	-9.71	16

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	102.959	-0.64	1.72	4.73	4.73	7.62
EUR-USD	1.0545	0.44	-2.27	-4.72	-4.72	-7.26
USD-JPY	129.70	-0.88	0.93	6.57	6.57	12.70
USD-CHF	0.9718	-0.02	1.49	5.34	5.34	6.45
EUR-CHF	1.0262	0.54	-0.73	0.48	0.48	-1.10
GBP-USD	1.2574	0.94	-2.06	-4.29	-4.29	-7.08
EUR-GBP	0.8388	-0.48	-0.28	-0.43	-0.43	-0.30
JP EM FX Index	52.06	0.37	-0.81	-2.68	-2.68	-0.96

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	2.93	11	3	60	142	142
Germany	0.94	4	-3	39	112	112
UK	1.91	3	-6	30	93	93
SWITZERLAND	0.87	-2	-3	27	101	101
Japan	0.23	0	-2	1	16	16
US IG Spread	148	-1	3	23	48	48
US High Yield spread	405	1	21	43	135	135
EUR High Yield spread	483	5	51	65	137	137

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	129.5	0.24	0.35	4.08	4.08	30.57
Gold Spot $/OZ	1896.9	0.13	-1.79	-2.09	-2.09	3.70
Crude Oil WTI	104.7	-0.64	1.57	4.40	4.40	35.98

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	33.4	3.41	5.19	12.84	62.45	16.18

Source: Bloomberg 04/30/2022

Macro and Rates : Macro Outlook more cautious

The global macro outlook has turned more cautious, with economic indicators pointing to a slowdown regime for the world economy.

Global growth outlook has deteriorated over the recent weeks. The prolongation of the conflict in Ukraine, the situation in China with signs of a clear deterioration due to Covid lockdowns and the accelerating Fed hike cycle (and overall hawkish central banks) among persistent inflationary pressure have significantly wheiged on sentiment, outlook and asset values in April..

As a result, the IMF materially downgraded their 2022 growth forecasts and marginally for 2023. While the institution is not known to be optimistic and generally lagging the economic cycles, this added to global concerns.

Noisy and divergent macro data.

PMIs around the world are broadly mixed and divergent. We note some resilience in Europe while in the US, the ISM manufacturing surprised on the downside at 55.4 against 57.6 expected. Services component remains broadly robust, reflecting continued growth in services following the lifting of Covid restrictions.

Employment is robust both in the US and Europe and is so far the best justification for central bank's hawkish tone. Unemployment rate in Eurozone reached 6.8% in March, the lowest level since the single currency's formation while it has reached 3.6% in the US, a post-pandemic low.

Meanwhile, inflation is still running hot. US Consumer Price Index (CPI) came in at a multi-decade high in March: 8.5 % year-on-year with Producer Price Index (PPI) pointing to even more inflationary pressures at 36.8% year-on-year.

In the mean time, US rate repricing have started to bite growth. US GDP unexpectedly declined in the first quarter for the first time since 2020. Growth contracted at a -1.4 % annualized rates versus +1% expected with trade deficit and softer inventories being the main detractor. Net exports on its own, subtracted an impressive -3.2 while inventories added a negative contribution of -0.8%.

The Fed set up a clear near-term path, offering some visibility.

On May 4th, the Fed hiked rates by 50bps. While the decision was largely anticipated, the probability of a 75 bps move for this meeting and the one in June was clearly not zero. By dismissing prospects of a 75bp move during the summer, Jerome Powell gave a bit of visibility to a market that was not reluctant to price aggressive rate hikes. With now the market anticipating policy rates at nearly 3% by the end of the year, the FOMC statement confirms the anticipated rate hike path is appropriate for now.

The Fed also announced the start of quantitative tightening for the month of June. In other words, the Fed will reduce its holding of Treasury bonds and mortgage-backed securities from its balance sheet. The initial pace of reduction is set-up at USD 47.5 billion per month and will be increase to USD 95 billion per month after 3 months. This balance sheet reduction is somewhat larger than anticipated by the market but could also suggests an earlier end to quantitative tightening.

The geopolitical and macro environment do not appear to be friendly for the moment from an investor perspective. The Fed probably managed to anchor front end-rates for the rest of the year but the larger balance sheet reduction will likely put some further pressure on the long-end of the curve. US 10 year yield could therefore only peak between 3.2% and 3.5%, before stabilization: a prerequisite for a move higher in equity markets.

Fixed Income: 1980, worse or better?

Like equities, fixed income continues to suffer. The Bloomberg US Aggregate Total Return Index is down 9.5% YTD. This is now worse than 1980, the year that was remembered by bond investors for a generation.

With inflation roaring back after a long absence, investors have been caught in a very difficult start into the year. Both major asset classes, equities *and* bonds are simultaneously sharply lower. In many cases, investment grade bond indices are even lower than blue-chip equity indices: in the US, US corporate bonds are down 12% YTD at the end of April while the Dow Jones Industrial index was «only» down 9%. In the US, inflation has risen to 8.5% in its latest reading, a level not seen since 1982.

While this is scary, investors should focus on the medium-term and try not to react too much to short-term market girations. In 1980, the Bloomberg US Aggregate Total Return index indeed fell 8.8% in the first quarter of the year, only to rebound later and end the year up 2.71%.

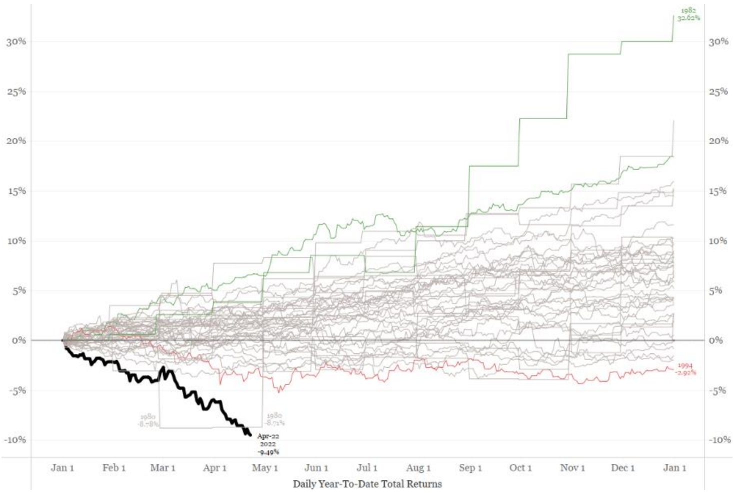
In 1980, the world economy was suffering from the second oil shock triggered by the Iranian Revolution. In March 1980, US CPI reached 14.8%. In the following months, US unemployment began to rise quickly and reached 10.6% in 1982. The Fed under Paul Volcker hiked rates from 14% to 20%, cut rates from 20% to 9.5% and hiked them back to 20% all within one year.

While the situation today may seem similar to 1980 at first glance, there are many things that are quite different. For example, debt to GDP stood at a fraction of today's 74% in the US. While the Fed was wrong in its inflation assessment in 2021, we should give it the benefit of doubt and hope that it will be able to lead to a «soft landing» of the US economy, without the nerve wracking hyperactivity of Volcker's Fed in 1980.

Inflation is caused by a strong post-pandemic rebound, followed by spiking commodity prices on the back of geopolitics together with renewed Covid lockdowns in China impacting supply-chains. Some of these factors could revert to normal, soon.

If inflation is about to peak and if the Fed regains its credibility by controlling inflation without strangling the economy, then this may well be a fairly good entry-point for bonds. After all, the US economy, like most other economies, is growing moderately and the unemployment rate is low. Not as dramatic a situation as the movement of some credit indices might suggest.

Bloomberg US Aggregate Total Return index



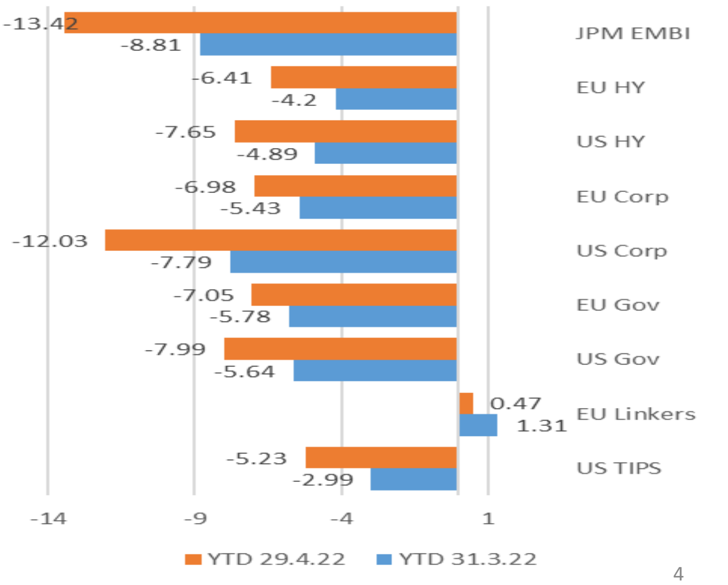
Source: Bianco Research LLC

Inflation, GDP growth and unemployment rates

	CPI YoY	GDP real YoY	Unempl. R.
Turkey	61.1	9.1	12.9
Brazil	11.3	1.6	11.1
US	8.5	3.6	3.6
Eurozone	7.5	5.0	6.8
Germany	7.4	3.7	2.9
UK	7.0	6.6	3.8
Canada	6.7	4.5	5.3
Australia	5.1	4.2	4.0
Switzerland	2.4	3.9	2.2
China	1.5	4.8	4.0
Japan	1.2	0.4	2.6

Source: Bloomberg

Total return of bond indices YTD



Equity: global markets near their lowest levels year-to-date

Volatility remains in the market and we expect that to continue as liquidity keeps to be taken out of the market by central banks that are trying to tackle inflation.

Size of movements has been aggressive not only between days but also intraday, investors should be prepared for more of these movements in this environment. On average, year-to-date intraday price movements have been close to 2%, almost twice the 10 year average, highlighting this period of greater volatility. As an example, on the 29th of April early in the session the S&P 500 reached a high of 4'270 and towards the end of the session hit a low of 4'124, which represents an intraday move of over 3%. For now, the S&P 500 has remained above the support level of 4'060 points which has hold for the last year.

From a bottom-up perspective, the earnings season has been positive, with 78% of companies in the S&P 500 reporting better than expected profit. Growth is coming in lower than what was observed in past quarters, at +7.8% YoY, as the base effects are tougher and activity is softer. However, it is important to highlight that we're still discussing better than expected growth and that has raised expectations for this year as a whole. According to IBES and JP Morgan, in 2022 EPS growth of the S&P is expected to be at 10.5%, which compares with a forecast of 8.7% in January 2022. Despite an overall positive earnings' season, there were some misses namely in some of the mega caps that had significant corrections. Examples of this are Netflix (-49% in April), Amazon (-24% in April) and Alphabet (-18% in the month).

In April European equities have outperformed US equities markets, greatly justified the larger value style composition of the index. This meant that the European indices were less impacted by rising interest rates. Nonetheless, as also Europe is struggling in lowering inflation, we expect the ECB to start rising rates sooner rather than later and this could have a negative impact in equities from this region. Since the beginning of the year, developed market value stocks have widened their outperformance against growth to 15% (end of April) and we still see room for this to continue as yields globally continue to rise.

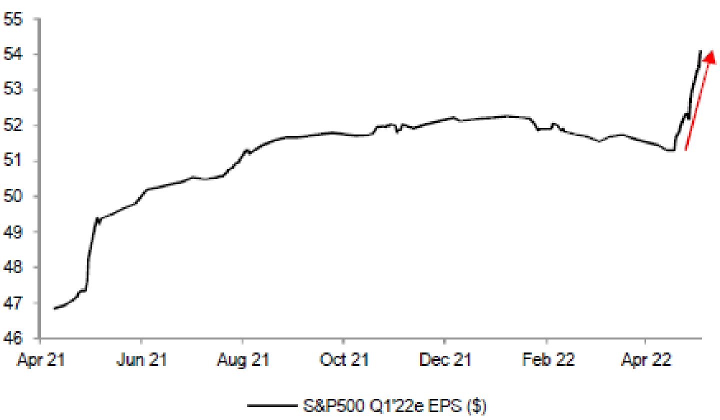
As price movements are expected to remain elevated in the short-term, it is important to remain invested in equities despite challenges ahead. Stock prices have quickly come under pressure, but they may as well rapidly appreciate and missing out on a recovery can compromise returns. Inflation and the rise in interest rates should start to have a negative impact in the economy, and as we approach the second half of the year, macroeconomic indicators should start to show this. As this weaker data is presented, this could actually be a positive factor for equities, as it could refrain central banks from tightening excessively monetary conditions that could induce the economy into a recession.

'22e and '23e consensus EPS growth expectations

	2022e EPS Growth, %		2023e EPS Growth, %	
	Current	Jan '22	Current	Jan '22
MSCI World	10.3%	7.1%	7.9%	8.6%
S&P 500	10.5%	8.7%	9.7%	10.1%
Stoxx 600	11.9%	7.1%	5.7%	6.8%
Euro Stoxx	8.7%	8.2%	7.7%	8.7%
FTSE 100	14.4%	4.2%	2.0%	3.1%
Topix*	7.0%	8.2%	6.2%	7.2%
EM	10.7%	5.4%	9.4%	9.9%

Source: IBES, * for Year Ending March 2023 and March 2024

S&P500 blended Q1 '22e EPS



Source: J.P Morgan, IBES, Thomson Reuters

Forex And Commodities: Would The USD Give Back Some Of Its Gains?

The US dollar currency continued to climb at the end of April, positioning now within striking distance of a 20-year high against the EUR, the Pounds and the Yen.

The greenback currency continued to be one of the few beneficiaries since the beginning of the year. It is not only due to its attractive safe haven in a market characterized by geopolitical fear, but also to the US economic resilience and central bank ramping up to battle inflation. The higher interest rates regime supports the dollar by making US assets more attractive to yield-seeking investors.

The carry on a higher US rate is likely to continue in the next upcoming months, especially vs EUR

As the ECB is now stirring concerns about how immediate rising interest rates in Euro zone would jeopardize its economic growth already affected by the war in Ukraine. The next meeting of the ECB on June 9 may provide some clue about its first rate hike in over a decade but at this stage, no decisions on rates are seen as certain. Whatever will be the decision, it is likely that the ECB should continue to lag behind the Fed in tightening monetary policy for the next quarter. Therefore, a low EUR vs the USD should be maintained at similar levels as seen in April.

Elsewhere, the bank of Japan reinforced its commitment to low interest rate despite rising inflation (continue to purchase the Japanese Government Bond), pushing the yen to more than 130 to the dollar for the first time since April 2002. With no changes of policy, Yen could reach a new resistance at 140 level.

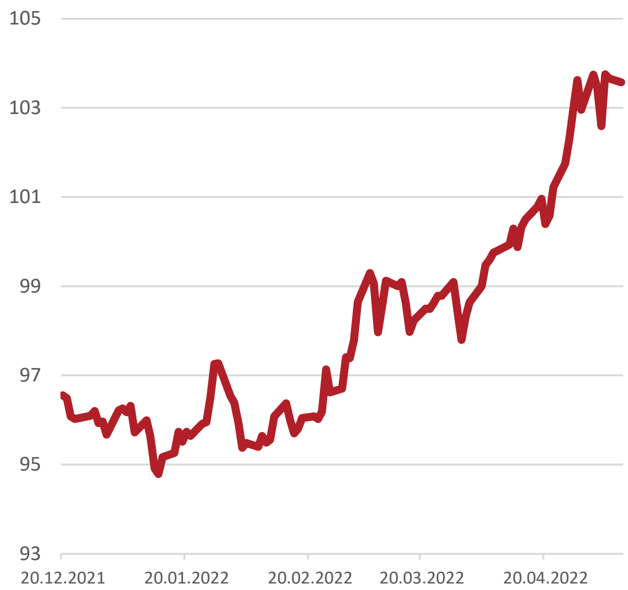
In that climate of persistent high dollar, foreign investors should avoid Emerging Market currencies.

The strengthening of the dollar tends to weigh heavily on emerging market, as most of the EM debts are dollar denominated, making them more expensive to repay. End of April the dollar jumped against nearly all EM currencies, especially LATAM.

European Union sanctions on Russian oil raised the prospect of tighter supply.

New sanctions from Europe to wean itself off Russian oil, natural gas and coal in six month and refined product by the end of 2022, would further fuel price in the west for next months. Most of the investors eyes should be turned to United States this next fall, as they already unveiled plan to buy 60 million barrels of crude for emergency stockpiles. In the meantime, the competition for more non-Russian supplies will continue to underpinning prices.

US Dollar Index continued to climb to a 20y high



Source: Bloomberg

MSCI Emerging Market Currencies consolidates to the lowest due to strong USD

Source: Bloomberg

By choosing Cité Gestion, you will benefit from our unique business model which sets us apart from most traditional wealth managers. Learn more on our website : www.cité-gestion.com

And follow us on LinkedIn to stay connected to all market news and perspectives.

Disclaimer and important information

This document has been published in Switzerland by Cité Gestion SA, Geneva, a custodian and securities dealer subject to regulation and supervision by the Swiss Financial Market Supervisory Authority (FINMA). It is not intended for distribution, publication or use in any jurisdiction where such distribution, publication or use would be prohibited, and is not directed to persons or entities to whom it would be unlawful to send such a document. All information provided in this document, in particular opinions and analyses, is for information purposes only and should not be construed as an offer, advice or recommendation to buy or sell any particular security or to enter into any transaction. Nor does this publication constitute - and should not be construed as - an advertisement for a particular financial instrument. The risks associated with some investments are not suitable for all investors and a precise assessment of the risk profile must be made. Nor should this document be construed as legal, accounting or tax advice. Although Cité Gestion SA makes every reasonable effort to use reliable and complete information, Cité Gestion SA makes no representation or warranty of any kind that the information contained in this document is accurate, complete or up to date. Any decision based on this information must be made at the investor's risk and Cité Gestion SA declines all responsibility for any loss or damage that may result directly or indirectly from the use of this information. United States: Neither this document nor any copies thereof may be sent, taken or distributed in the United States or given to a US-Person. This document may not be reproduced (in whole or in part), transmitted, modified or used for public or commercial purposes without the prior written consent of Cité Gestion SA.