

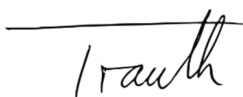
# 07.2023

17 July 2023

Given that the central banks have aggressively raised interest rates and are holding out the prospect of further rate hikes, that core inflation is stubbornly persisting well above the inflation targets, and that growth of production of goods has clearly slowed down, it is astonishing that the financial markets have performed so positively.

The optimism displayed by the financial market participants is based on distinctly reduced headline inflation and robust demand for services, which has resulted in an economy still almost at full employment. In addition, investors anticipate that progress in the field of artificial intelligence is going to significantly boost corporate earnings.

We consider the recent positive market development a bear market rally. Since we expect a recession in the next 6-9 months, we are keeping to our cautious approach and remain underweight equities, REITs and raw materials. Conversely, we have gone overweight in government bonds and are staying overweight in insurance-linked bonds, as well as liquidity.

A handwritten signature in black ink, which appears to read "Trauth". The signature is written in a cursive, flowing style.

**Thomas Trauth**  
CEO – IMT Asset Management AG

# THE FIGHT AGAINST INFLATION IS NOT OVER YET

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## Financial markets

Solid growth and hawkish central banks led to higher short-term bonds yields in June. 2-year government bond yields rose by almost half a percentage point both in the US and the Eurozone. 10-year bond yields also rose but to a lesser extent: by 11 basis points in Europe and 19 basis points in the US. US 10-year yields broke above 4%. Meanwhile break-even inflation rates (inflation expectations) have remained very steady since the beginning of this year. Rising risk appetite in June induced credit spread tightening. High-yield spreads, for example, fell by 34 basis points in that month.

June was a very positive month for equity markets. The S&P500 index rose by 6.5%, outperforming the MSCI Europe, which advanced by 2.2%. The Nikkei 225 Index even rallied by 7.5%, leading to an amazing 24% year-to-date performance.

The technology sector, fueled by the excitement about Artificial Intelligence, has been the best performing sector this year. The technology-oriented NASDAQ Composite Index recorded its best first half-year performance since 1983, with a gain of 31.7%. However, the general market situation was characterized by unusually divergent developments. While the US S&P 500 Index rose this year (to the end of June) by very nearly 16%, this development was driven almost exclusively by seven stocks: Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta, which posted gains of between 40% and 180%. The prices of the other 492 stocks remained on average

more or less unchanged. In our view, the valuations of many of those technology stocks look very rich.

The price of gold declined by 2.2% in June. A better growth outlook drove energy prices higher. The Bloomberg Energy Price index rose by 8.4%.

Dispersion among crypto assets was very wide in June. While Bitcoin rallied by 12%, many other crypto assets had a difficult month. The demand for Bitcoin was high as a couple of new Bitcoin-based ETFs were launched. At the same time, the SEC initiated lawsuits against Coinbase and Binance, which weighed on the trading for other crypto assets.

The USD continued to weaken. It fell about 2% against the EUR in June. The CHF slightly weakened against the EUR. The JPY and Chinese CNY continued to weaken in June.

## Macroeconomics

Manufacturing PMIs fell further and remain clearly below 50, indicating that the manufacturing sector is declining. Meanwhile services PMIs are still above 50, suggesting that pent-up demand for services remains strong and is producing economic growth. Headline inflation is falling. Eurozone inflation fell to 5.5% and US inflation even to 3%. Core inflation, however, remained at 4.6% in the US and 5.4% in the Eurozone. Non-farm payrolls continued to rise, by 209,000 in June. Wage pressure remains high, as average hourly earnings grew by 4.4% year-on-year in June.

### Central banks

On 14 June the US Fed decided not to increase rates but clearly stated that two more increases are likely later this year. The next rate hike could be as early as at its July meeting. The Fed kept the Fed Fund Rates within the band of 5-5.25%. Chairman Powell made clear that he wants to see distinct evidence that inflation is topping and that he has not seen much progress in bringing core inflation down.

The ECB, at its policy meeting on 14-15 June, raised rates by 25 basis points to 3.5% and signaled that further rate hikes will be necessary to tame inflation.

The SNB also hiked rates by 25 basis points to 1.75% on 22 June, indicating that further increases might be necessary. While Swiss inflation has remained lower than in the neighboring Eurozone, the SNB expressed concern about the persisting inflation pressure.

### Outlook

Inflation, especially core inflation, remains too high and clearly above the central banks' inflation targets.

Core inflation in the USA remains at 4.6% and in the Euro zone is still up at 5.4%. Because of the good employment situation, wage pressure will continue to drive inflation. The central banks have consequently announced further rate hikes.

The higher interest rates and the tightening of lending policies will inevitably lead to a further slowdown of economic growth. We expect a recession either at the end of this year or at the beginning of 2024. In a recession, the stock markets generally fall significantly.

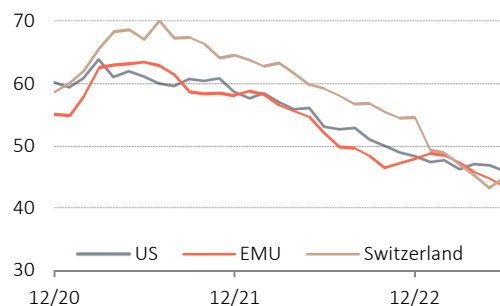
In view of the substantial macro risks detailed above, we are retaining our defensive position. We are remaining underweight in shares, REITs and raw materials. Conversely, we have gone overweight in government bonds and remain overweight in insurance-linked bonds as well as liquidity.

# ECONOMICS

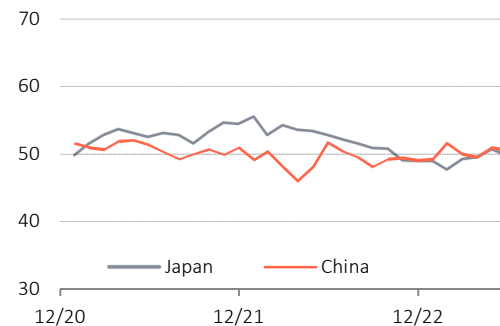
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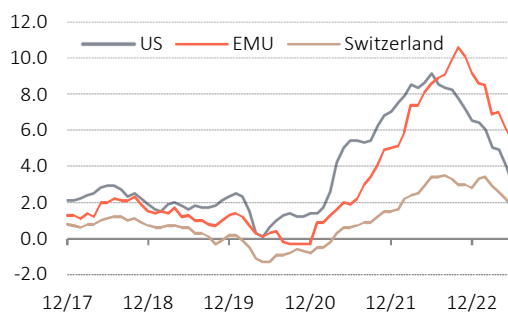
**Fig. 1: Manufacturing PMIs**



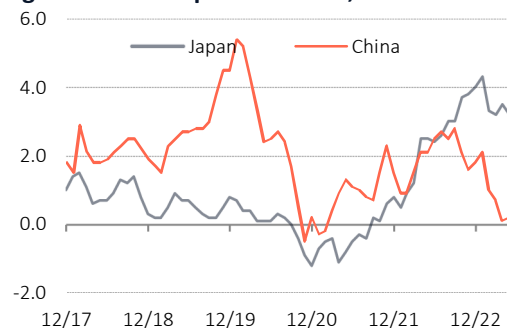
**Fig. 2: Manufacturing PMIs**



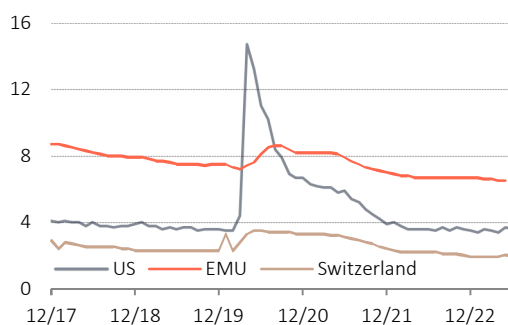
**Fig 3: Consumer price inflation, in % YoY**



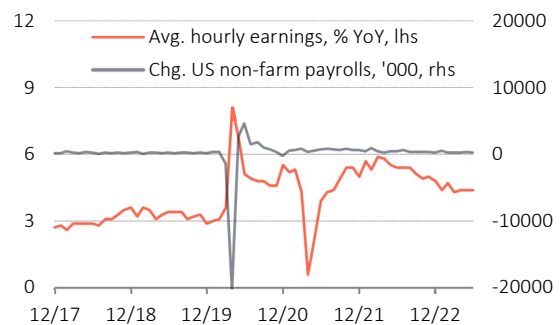
**Fig. 4: Consumer price inflation, in % YoY**



**Fig 5: Unemployment rates, in %**



**Fig 6: US labor market**

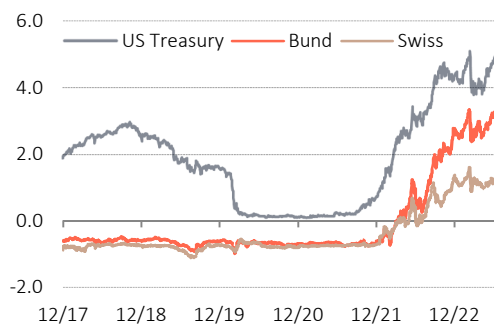


# FIXED INCOME

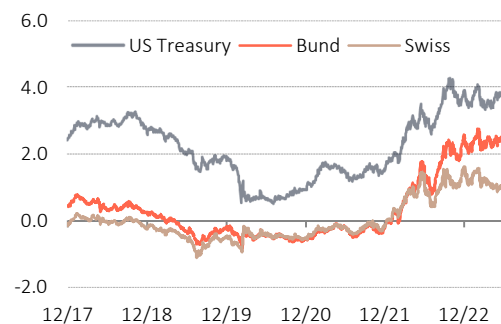
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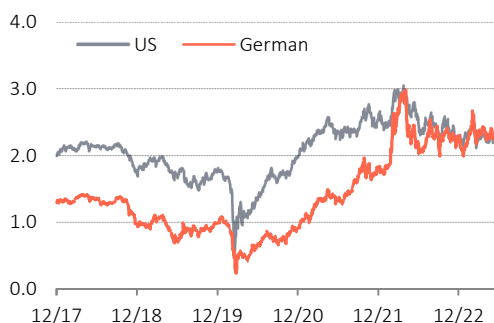
**Fig.7: 2Y government bond yields**



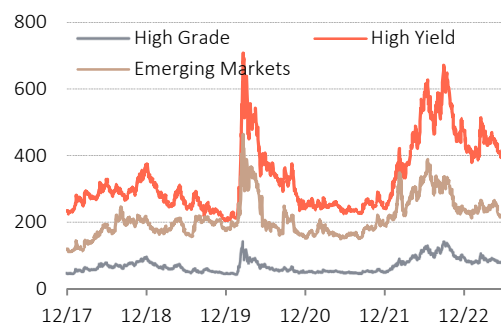
**Fig. 8: 10Y government bond yields**



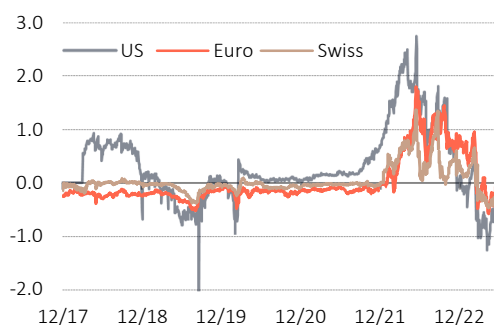
**Fig 9: 10Y break-even inflation**



**Fig. 10: Credit spreads, 5Y credit default swaps**



**Fig 11: Money market spreads (O/N-2Y)**



**Fig 12: Merrill Lynch volatility index (MOVE)**

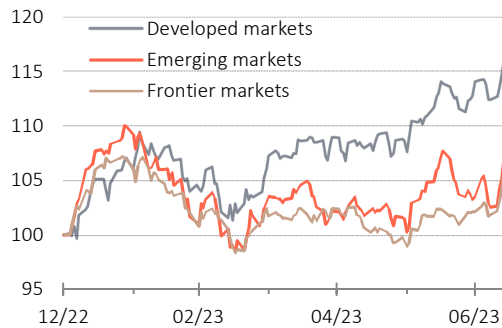


# EQUITIES

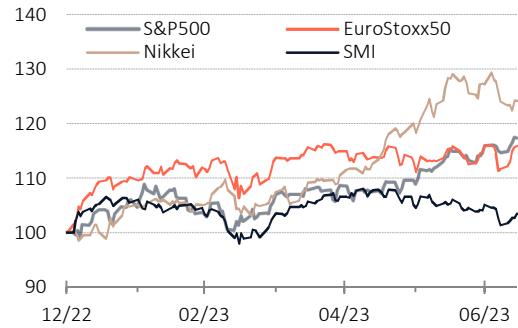
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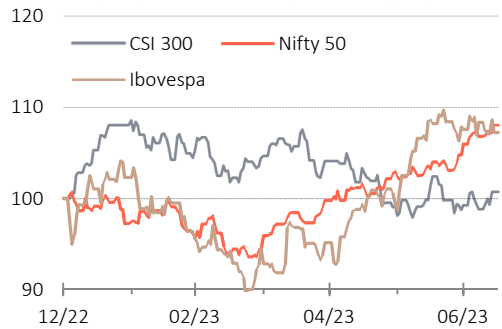
**Fig. 13: MSCI equity indices – major regions**



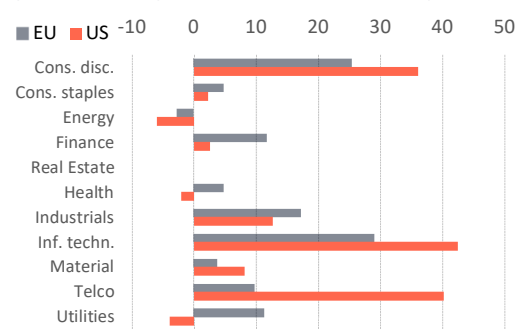
**Fig.14: Equity indices – major developed markets**



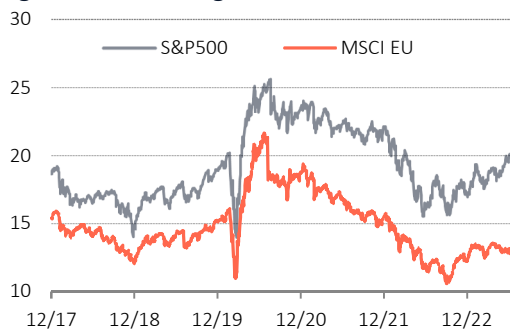
**Fig 15: Equity indices – major emerging markets**



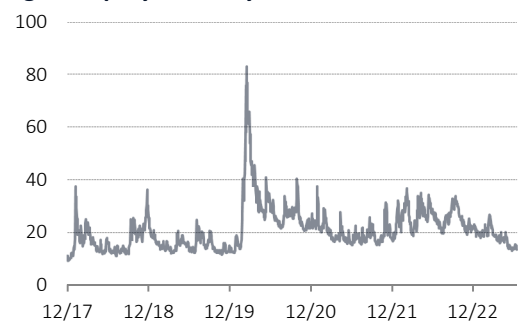
**Fig. 16: Sector performance, MSCI Europe, YTD**



**Fig 17: Price-earnings ratios**



**Fig 18: Equity volatility – S&P500 VIX index**



# ALTERNATIVE INVESTMENTS

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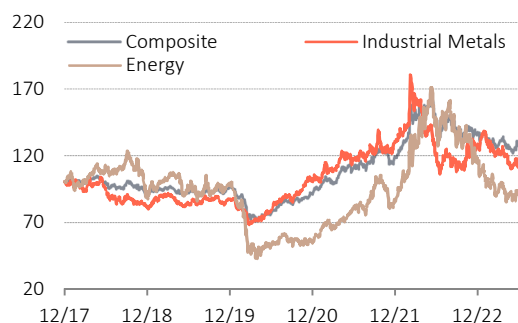
**Fig. 19: Gold price, USD/oz**



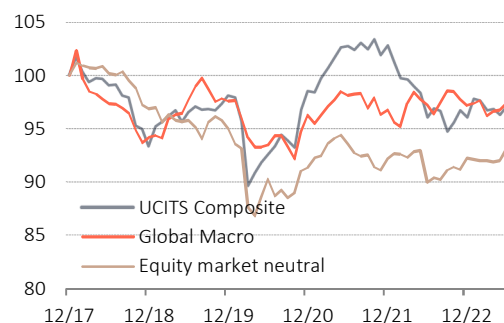
**Fig.20: Brent oil price, USD/bl**



**Fig 21: Bloomberg commodity indices**



**Fig. 22: HFRU hedge fund indices**



**Fig 23: FTSE EPRA/NAREIT global REITS index**



**Fig 24: Crypto Assets**



# CURRENCIES

The USD continued to weaken. It fell about 2% against the EUR in June. The CHF slightly weakened against

the EUR. The JPY and Chinese CNY continued to weaken in June.

**Fig. 25: EUR-USD exchange rate**



**Fig. 26: GBP-USD exchange rate**



**Fig. 27: USD-JPY exchange rate**



**Fig. 28: USD-CNY exchange rate**



**Fig. 29: EUR-CHF exchange rate**



**Fig. 30: USD-CHF exchange rate**

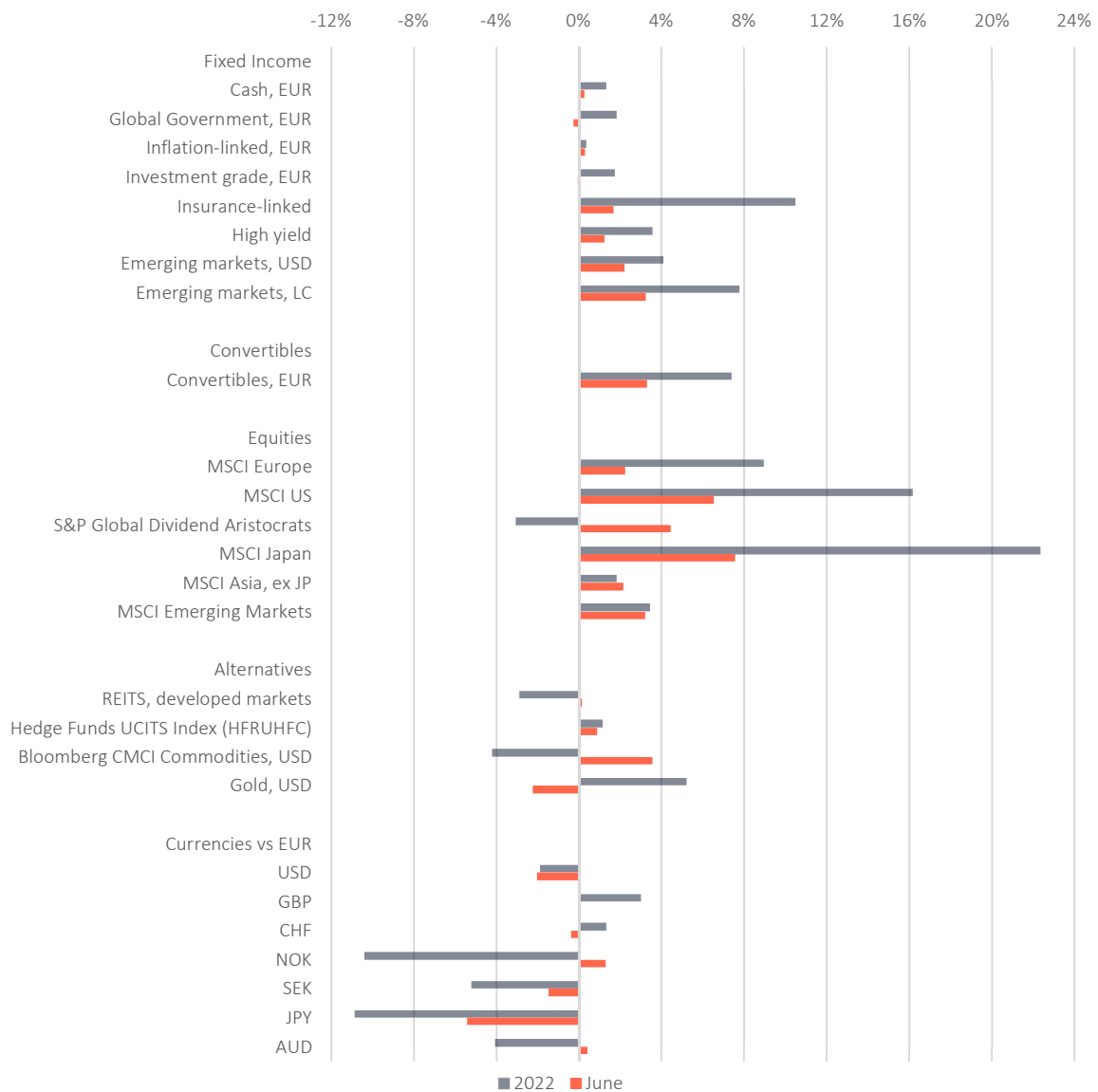




# ASSET ALLOCATION

In June equity and bond markets performed positively. Especially Japanese and US equities outperformed. One of the few losing assets was gold. The USD and the JPY weakened.

**Fig. 37: Performance of major asset classes, based on our EUR portfolio strategy**



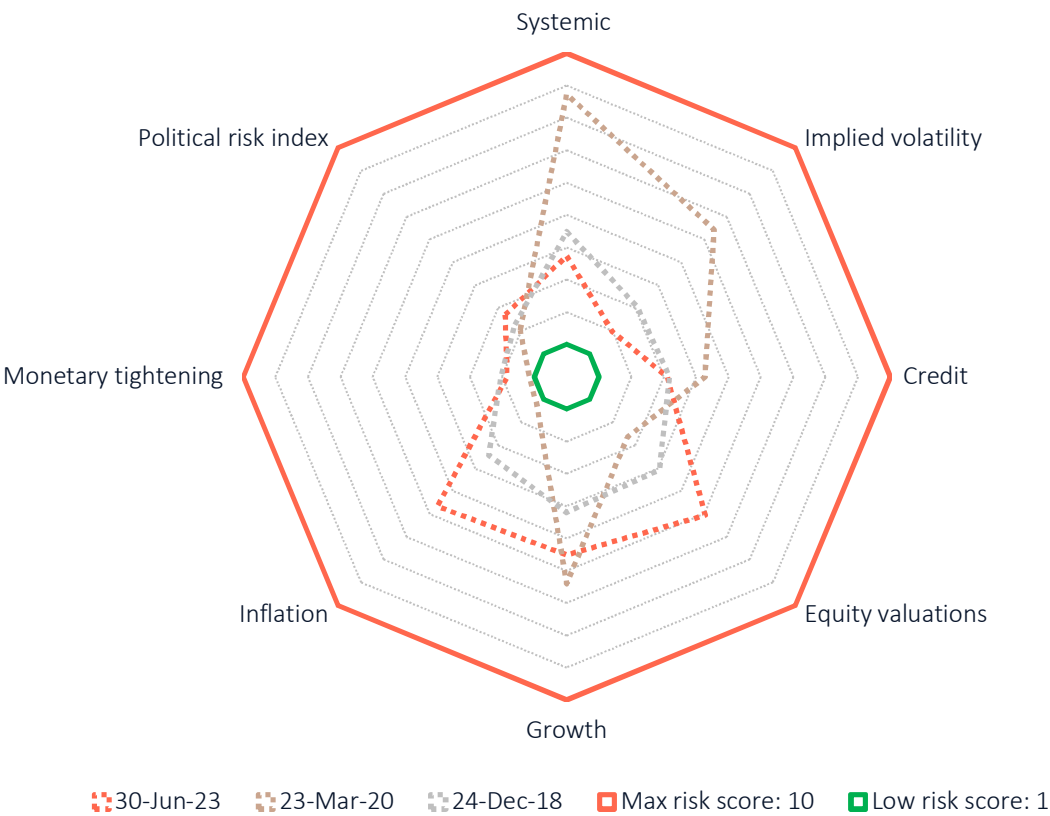
# RISK MONITOR

Inflation, growth and valuation risks are currently elevated and make an odd combination of risk factors. At the same and despite high macro and geo-political uncertainties implied volatility remains at

very low levels. In other words, market participants are not seeking protections, i.e., demand for options remains very low.

Fig. 38: IMT Risk Monitor

23-Mar-2020: Global pandemic  
24-Dec-2018: Growth and monetary tightening fears



# DISCLAIMER

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