Hawkish Tone

31 August 2022

This month, investors were focused on the annual economic symposium in Jackson Hole. The consensus from policymakers was that they are ready to follow through with higher interest rates, to counter persistently high inflation levels (even though this has the potential to threaten economic growth). Policymakers also discussed how the global economy is entering a new and tougher economic era, and we can expect bouts of heightened volatility as we adjust to a tighter period of monetary policy.

Equities	Level	Aug-22	YTD
MSCI World	2,627	-4.33%	-18.70%
MSCI Emerging Markets	994	0.03%	-19.31%
MSCI AC Asia ex Japan	641	-0.22%	-18.80%
S&P 500	3,955	-4.24%	-17.02%
Nasdaq comp	11,816	-4.64%	-24.47%
FTSE 100	7,284	-1.88%	-1.36%
Eurostoxx 50	3,517	-5.15%	-18.17%
SMI	10,855	-2.61%	-15.69%
CSI 300	4,079	-2.19%	-17.44%
Nikkei 225	28,092	1.04%	-2.43%

Yields, FX and commodities	Level	Aug-22	YTD
10Y US Treasury Yield	3.19	0.54	1.68
US Dollar Index	109	2.64%	13.62%
Gold ($/oz)	1,711	-3.11%	-6.46%
WTI Crude Oil ($/bbl)	90	-9.20%	19.07%

Figure 1: Data as at 31.08.22 (local currency returns)

The Fed Chair Jerome Powell's hawkish speech on August 26th made clear his commitment to curb inflation, by saying he "would keep at it until the job is done." Therefore, another 75-bps interest rate rise remains likely in September; and market pricing after Powell's speech indicated that rates are expected to reach 3.8% by February 2023. US Treasury yields moved higher after the Fed's hawkish comments: US two-year treasury yields reached the highest level since 2007 (3.466%), and US ten-year yields also went above 3%. The closely watched 2-year/10-year segment of the Treasury yield curve remains inverted (which is a common signal of a coming recession).

In addition, after the Fed's hawkish comments, the summer rally which we saw in developed equity markets in July and early August, lost momentum. The rebound was partly driven by the prospect of rate cuts next year, given signs of a slowing global economy (expectations that the Fed may 'pivot'). However, Powell's hawkish remarks in Jackson Hole suggest that the Fed is unlikely to change its aggressive course of rate rises in the near term, which will "bring some pain to households and businesses" in the US. We have seen some poor business surveys in the US over August: for example, the composite PMI (service and manufacturing activity) hit its lowest level since early 2020, and sales of new homes in July fell for the sixth month so far this year.

In Europe, the ECB faces a significant trade-off between taming high inflation (for example, Germany's PPI surged to 37.2% year-on-year in July), without hampering economic growth. Europe faces an energy crisis driven by the Russia-Ukraine war, and Russia's subsequent cuts to gas supplies. At the end of August, Gazprom (Russia's state-owned natural gas producer) announced further closures of the Nord Stream 1 pipeline to Europe, leading to a surge in natural gas prices. For example, Europe's benchmark gas price rose to above €343/MWh on August 26th (over 30 times higher than prices two years ago; and ~10 times higher than US Henry Hub natural gas price levels); and in France, electricity prices rose to ~€1,000/MWh (from ~€100/MWh a year ago).

As the economic outlook worsens in Europe, the EUR continues to struggle. The EUR has fallen by ~15% this year, reaching a 20 year low last week, and the EUR/USD exchange rate fell below parity on August 22nd. Euro weakness is further adding to the eurozone's inflationary pressures, as the price of imports (including energy) increases. It seems likely that EUR depreciation will last some time, due to slowing eurozone growth (the eurozone's composite PMI fell to an 18-month low of 49.2 in August); questions over the ECB's course of monetary policy; and investors' EUR positioning (net short euro positions have hit their highest levels since the start of the pandemic).

Therefore, fears over the risk of a recession have continued in August, as investors face the continuing headwinds of persistently high inflation, coupled with signs of slowing economic activity. As we enter the rest of this year, the Russia-Ukraine conflict remains the biggest uncertainty and will likely lead to a big test of unity in Europe this coming winter, due to its impact on raw materials, inflation, and financial markets.

Our summary recommendations

From an asset allocation perspective, we remain cautious, as the global economy is likely to enter a recession, mostly driven by inflation and the measures required to fight it (hard landing probabilities have therefore begun to rise again).

Within equities, we maintain our neutral positioning, and will take advantage of periods of heightened volatility to issue structured products. We also favour equity funds which adopt a blended style (exposure to both the value and growth segments of the market), as these funds have greater flexibility to navigate the volatile and changing equity market, by adjusting their exposure to either equity style depending on the market environment.

Within fixed income, we favour high quality bonds with a maturity of around 2-3 years, that we intend to hold to maturity to generate a return of around 3-4%.

We continue to favour an allocation to alternatives, due to the attractive risk adjusted returns this asset class has historically delivered. For example, trade finance funds provide a spread over LIBOR, and decorrelation benefits to a portfolio; whilst private equity funds provide a lower volatility, longer term solution to portfolios (particularly when rising rates and rising inflation may lower the potential returns of equity markets). ↗

Disclosures

This document has been issued by Stork Capital, registered with the Swiss Association of Asset Managers, which is regulated by FINMA.

Offering Documents. This material is provided at your request for informational purposes only and is not intended as an offer, a solicitation of an offer, to buy, sell or carry out any transaction on investment instruments or other specific product, it only contains selected information with regards to Stork Capital's services. The analysis and information contained herein do not constitute a personal recommendation or consider the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, however, Stork Capital cannot guarantee the accuracy of such content, ensure its completeness, or warrant that such information has not or will not change.

Prior to any investment, prospective investors should carefully read the latest offering documentation, including but not limited to the fund's prospectus which contains inter alia a comprehensive disclosure of applicable risks. The relevant constitutional and offering documents are available free of charge at Stork Capital's principal office.

Alternative Investments. Alternative Investments may be subject to less regulation than other types of pooled investment vehicles such as mutual funds. Alternative Investments may impose significant fees, including incentive fees that are based upon a percentage of the realized and unrealized gains and an individual's net returns may differ significantly from actual returns. Such fees may offset all or a significant portion of such Alternative Investment's trading profits. Alternative Investments may not be required to provide periodic pricing or valuation information. Investors may have limited rights with respect to their investments, including limited voting rights and participation in the management of such Alternative Investments.

Risk Information and Potential Loss. Financial advisers generally suggest a diversified portfolio of investments. The funds described herein do not represent a diversified investment by themselves. This material does not constitute investment advice and should not be used as the basis for any investment decision. This material does not purport to provide any legal, tax or accounting advice. Prospective investors should consult their financial and tax adviser before investing in order to determine whether an investment would be suitable for them.

Any investor or prospective investor should be aware of the risks inherent in trading activity, such as but not limited to currency risk, interest-rate risk, market risk, insolvency risk, and is aware that trading can be very speculative and may result in losses as well as profits. Therefore, an investor should only invest if he/she has the necessary financial resources to bear a complete loss of this investment.

Portfolio Allocations. This material contains information that pertains to past performance or is the basis for previously-made discretionary investment decisions. The value of investments may fall as well as rise and investors may not get back the amount they invested. Thus, past performance does not necessarily provide any guarantee of future results. Accordingly, this information should not be construed as a current recommendation, research or investment advice. It should not be assumed that any investment decisions shown will prove to be profitable, or that any investment decisions made in the future will be profitable or will equal the performance of investments discussed herein. Any mention of an investment decision is intended only to illustrate our investment approach and/or strategy, and is not indicative of the performance of our strategy as a whole. Any such illustration is not necessarily representative of other investment decisions.

Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable.

Intended Recipients. This material and any information contained therein shall only be for the personal use of the intended recipient and shall not be redistributed to any third party, unless Stork Capital or the source of the relevant market data gives their approval. This material is not directed to any person in any jurisdiction where (on the grounds of that person's nationality, residence or otherwise) such documents are prohibited. In particular, neither this document nor any copy thereof may be sent, taken into or distributed in the United States or to any US person.

Disclaimer of Endorsement. References in these discussion materials to any specific manager, service provider, vendor, market, index, financial procedure, process, resources, or commercial services do not constitute nor imply its endorsement, recommendation, or favour by Stork Capital. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by Stork Capital to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice. The website links provided are for your convenience only and are not an endorsement or recommendation by Stork Capital of any of these websites or the products or services offered. Stork Capital is not responsible for the accuracy and validity of the content of these websites.

Investment Risks. Risks vary by the type of investment. For example, investments that involve futures, equity swaps, and other derivatives, as well as non-investment grade securities, give rise to substantial risk and are not available to or suitable for all investors. We have described some of the risks associated with certain investments below and, in certain cases, earlier in this presentation. Additional information regarding risks may be available in the materials provided in connection with specific investments. You should not enter into a transaction or make an investment unless you understand the terms of the transaction or investment and the nature and extent of the associated risks. You should also be satisfied that the investment is appropriate for you in light of your circumstances and financial condition.

Alternative Investments. Private investment funds and hedge funds are subject to less regulation than other types of pooled vehicles. Alternative investments may involve a substantial degree of risk, including the risk of total loss of an investor's capital and the use of leverage, and therefore may not be appropriate for all investors. Liquidity may be limited. Investors should review the Offering Memorandum, the Subscription Agreement and any other applicable disclosures for risks and potential conflicts of interest.

Real Estate. Investments in real estate involve additional risks not typically associated with other asset classes, such as sensitivities to temporary or permanent reductions in property values for the geographic region(s) represented. Real estate investments (both through public and private markets) are also subject to changes in broader macroeconomic conditions, such as interest rates.

Supplemental Risk Disclosure for All Potential Investors in Hedge Funds and other private investment funds (collectively, "Alternative Investments"). In connection with your consideration of an investment in any Alternative Investment, you should be aware of the following risks:

- Alternative Investments are not subject to the same regulatory requirements or governmental oversight as mutual funds. The sponsor or manager of any Alternative Investment may not be registered with any governmental agency.
- Alternative Investments often engage in leverage and other investment practices that are extremely speculative and involve a high degree of risk. Such practices may increase the volatility of performance and the risk of investment loss, including the loss of the entire amount that is invested.
- Alternative Investments may purchase instruments that are traded on exchanges located outside the United States that are "principal markets" and are subject to the risk that the counterparty will not perform with respect to contracts. Furthermore, since there is generally less government supervision and regulation of foreign exchanges, Alternative Investments are also subject to the risk of the failure of the exchanges and there may be a higher risk of financial irregularities and/or lack of appropriate risk monitoring and controls.
- Past performance is not a guide to future performance and the value of Alternative Investments and the income derived from them can go down as well as up. Future returns are not guaranteed and a loss of principal may occur.
- Alternative Investments may impose significant fees, including incentive fees that are based upon a percentage of the realized and unrealized gains, and such fees may offset all or a significant portion of such Alternative Investment's trading profits.
- Alternative Investments are offered in reliance upon an exemption from registration under the Securities Act of 1933, as amended, for offers and sales of securities that do not involve a public offering. No public or other market is available or will develop. Similarly, interests in an Alternative Investment are highly illiquid and generally are non-transferable without the consent of the sponsor, and applicable securities and tax laws will limit transfers.
- Alternative Investments may themselves invest in instruments that may be highly illiquid and extremely difficult to value. This also may limit your ability to redeem or transfer your investment or delay receipt of redemption proceeds.
- Alternative Investments are not required to provide their investors with periodic pricing or valuation information.
- There may be conflicts of interest between the Alternative Investment and other service providers, including the investment manager and sponsor of the Alternative Investment.
- Investors in Alternative Investments may have limited rights with respect to their investment interest, including limited voting rights and participation in the management of the Alternative Investment.
- Alternative Investments may involve complex tax and legal structures. Investment in any particular Alternative Investment, or Alternative Investments generally, is only suitable for sophisticated investors for whom such an investment does not constitute a complete investment program and who fully understand and are willing to assume the risks involved in such Alternative Investment. You are urged to consult with your own tax, accounting and legal advisers regarding any investment in any Alternative Investment.
- Investors are also urged to take appropriate advice regarding any applicable legal requirements and any applicable taxation and exchange control regulations in the country of their citizenship, residence or domicile which may be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any Alternative Investment.

We refer you to the offering materials for a more complete discussion of the risks relating to an investment in any particular Alternative Investment. You are urged to read all of the offering materials, including the entire offering memorandum, prior to any investment in any Alternative Investment, and to ask questions to the investment manager or sponsor of such Alternative Investment.

The sole place of jurisdiction for all disputes arising out of or in connection with this material and/or the present disclaimer and/or to the use of this material is Geneva, Switzerland, and it shall be exclusively governed by and construed in accordance with Swiss law.

STORK CAPITAL
Quai de l'île 15,
CH – 1204 Geneva,
Switzerland

1903 South Tower, EFT
DIFC, PO Box 215359,
Dubai, UAE

STORK

Yves Gloor
yves.gloor@storkcapital.com

Caroline Hooft Graafland
caroline.hooftgraafland@levantcapital.com

www.storkcapital.com