

Investment Playbook Weekly Update

5 August 2022

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BEST INDEPENDENT WEALTH MANAGER
WEALTH PLANNING SERVICES



BEST INDEPENDENT WEALTH MANAGER
INVESTMENT ADVISORY

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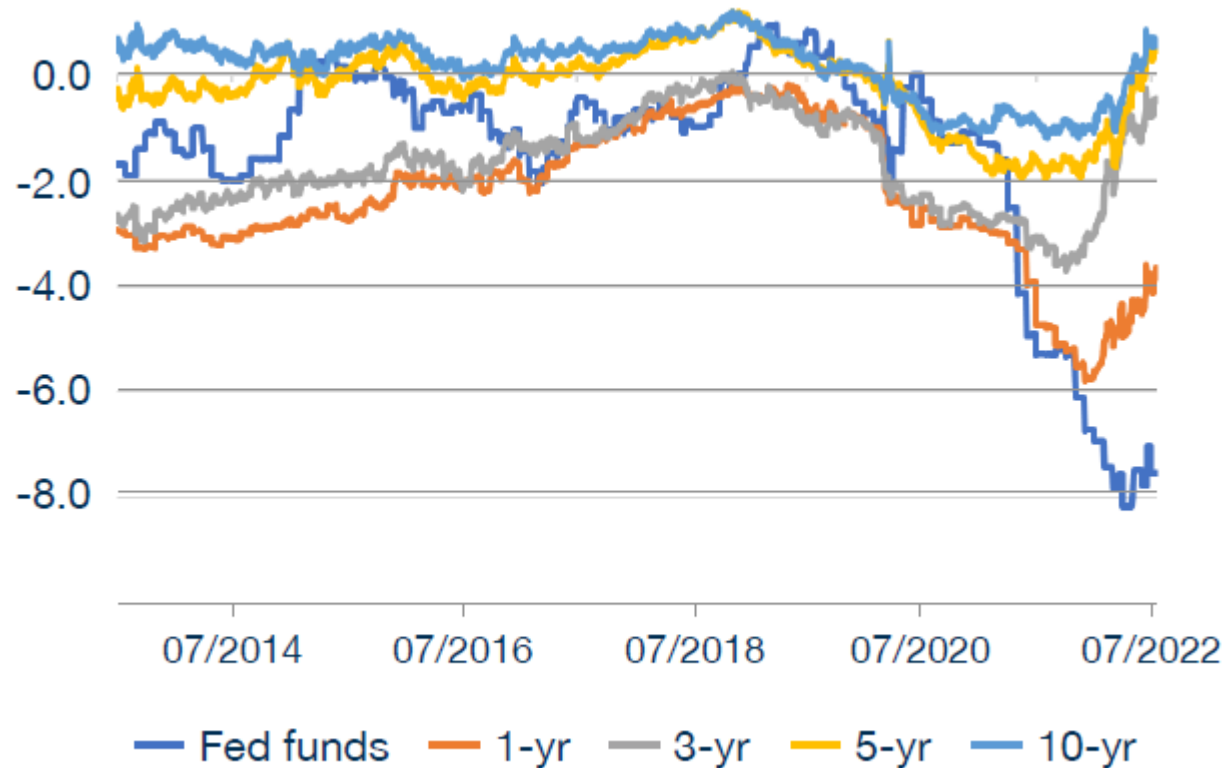
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Macro Highlights

1

Real Rates Still Negative on the Short End

Historical experience and economic theory suggest that inflation may not be tamed



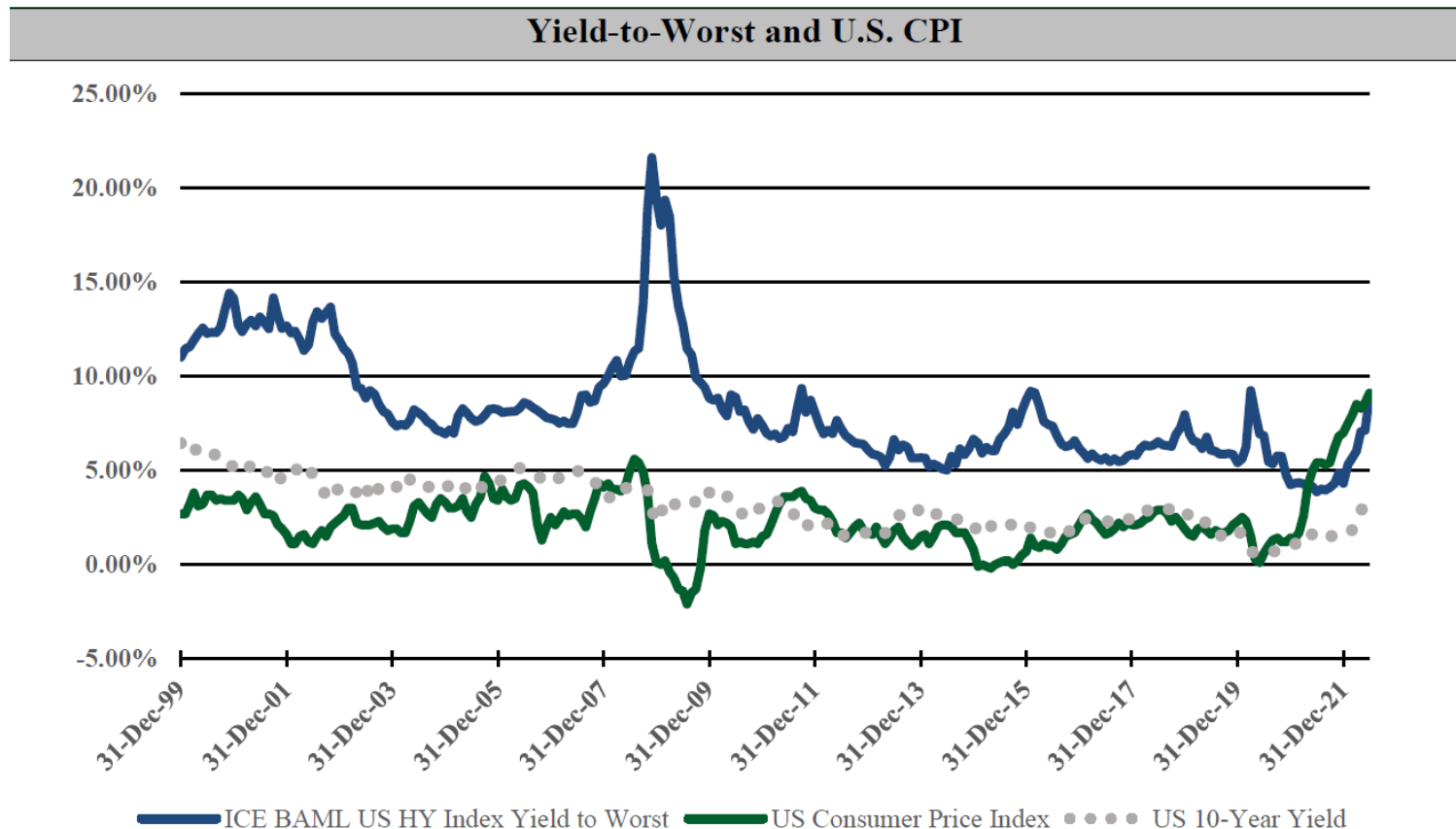
Source: Element Advisors, July 2022

Fixed Income Highlights

2

High Yield Spreads Likely to Have Room to Widen

Spread between US HY and Inflation has inverted for the first time since 2000



Source: Millstreet Capital, July 2022

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US Credit- YTW Heat Map

IG not compensating adequately for taking on duration. Stick to ST debt in HY

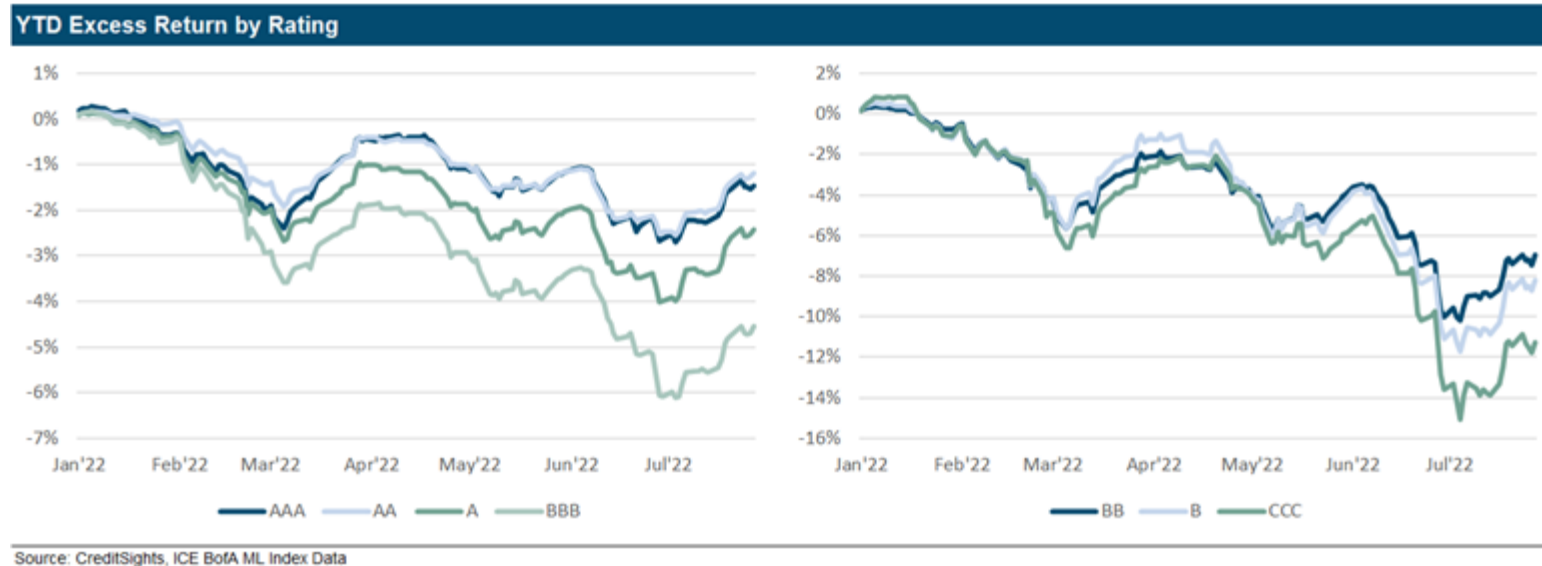
US IG & HY Corporate Yield to Worst (%) by Rating, Tenor															
	IG	AAA	AA	A1	A2	A3	BBB1	BBB2	BBB3	BB1	BB2	BB3	B1	B2	B3
Index	4.39	3.50	3.73	3.86	4.04	4.19	4.48	4.63	5.27	5.55	6.10	6.35	7.37	8.00	9.96
3Y	3.90	3.04	3.31	3.43	3.70	3.78	4.02	4.06	4.74	5.08	5.98	5.94	7.69	8.48	10.84
5Y	4.20	3.06	3.37	3.61	3.92	4.05	4.20	4.32	5.20	5.61	6.03	6.54	7.24	8.06	9.70
7Y	4.41	3.43	3.56	3.78	4.10	4.18	4.38	4.59	5.29	5.78	6.06	6.38	7.31	7.79	9.03
10Y	4.55	3.42	3.61	3.86	4.15	4.29	4.58	4.82	5.37	5.50	6.07	6.21	7.05	6.88	10.33
30Y	4.81	3.83	4.23	4.45	4.44	4.62	4.89	5.19	5.86	6.41	7.99	7.92	7.83	14.39	N/A

Source: CreditSights, ICE Data Indices, LLC. Data as of 07/31/22

Source: CreditSights, July 2022

Euro Credit- Excess Returns

Higher rated segments continue to outperform riskier assets-Recessionary fears



Source: CreditSights, July 2022

Fixed Income – Executive Summary

- The fortnight was characterized by sharp movements in the 10Y UST yields dropping to 2.55% levels from 3% before moving to 2.73% levels currently. Powell's speech was viewed as dovish and hence the drop however further commentary from Fed presidents triggered the hawkish sentiments. Powell's comment on being data driven brings in more uncertainty in our opinion and hence prefer being defensively positioned in US credits. **High grade low duration is the mantra as investors are not adequately compensated for taking on duration.**
- With continuous tightening financial conditions, US high yield default rate is expected to pick up in the next few quarters. **Prefer stronger balance sheet names with duration under 4 years .**
- European credit market clearly points to the refinancing risks faced by weak issuers. The outperformance of higher-grade credits over risky assets points to market pricing in a full-blown recession in Europe.

Equities Highlights

3

Equities – Executive Summary

- Expectations that weakening economic conditions will cause central banks to pivot from hiking to cutting interest rates by mid 2023 are still dominating and explain the rally over the last few weeks. We think a gradual allocation to equities makes sense at this point given the emergence of downside earnings potential relative to current expectations amid meaningful recession risks, with value/cyclical equity performance likely to enter a more difficult phase.
- An overly bearish view is not justified given the (still supportive) global economic growth, significantly improved valuations, the prospect of cooling inflation later in 2022, and China reopening/policy support. In fact, this might be an attractive entry point for growth equities following the recent selloff and the likelihood we are at “peak Fed hawkishness.”
- Falling bond yields created a tailwind for global equities which benefitted from a US-led broad-based rally in July. The S&P 500’s year-to-date losses shrunk to 13% following July’s 9% increase. For this rally to continue, investors will now require interest rates not to increase and earnings not to disappoint in the coming quarters.

Forex, Commodities & Alternatives Highlights

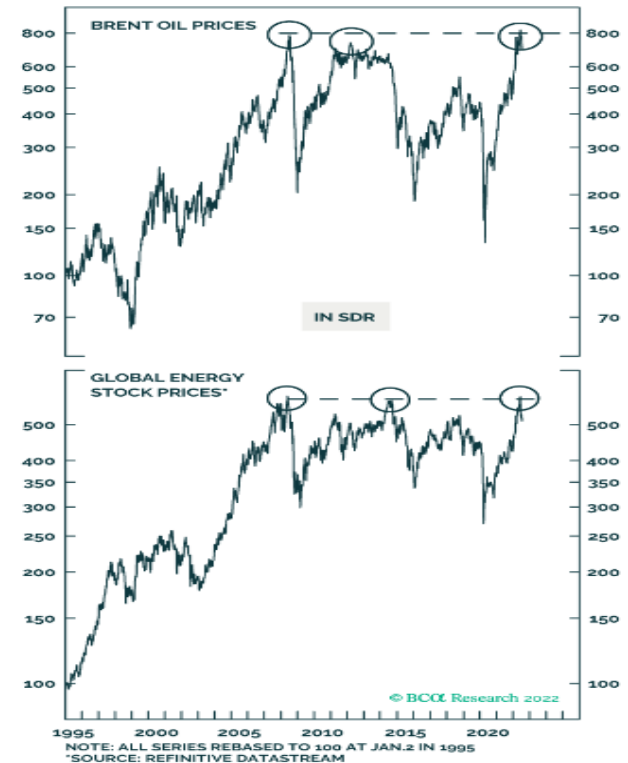
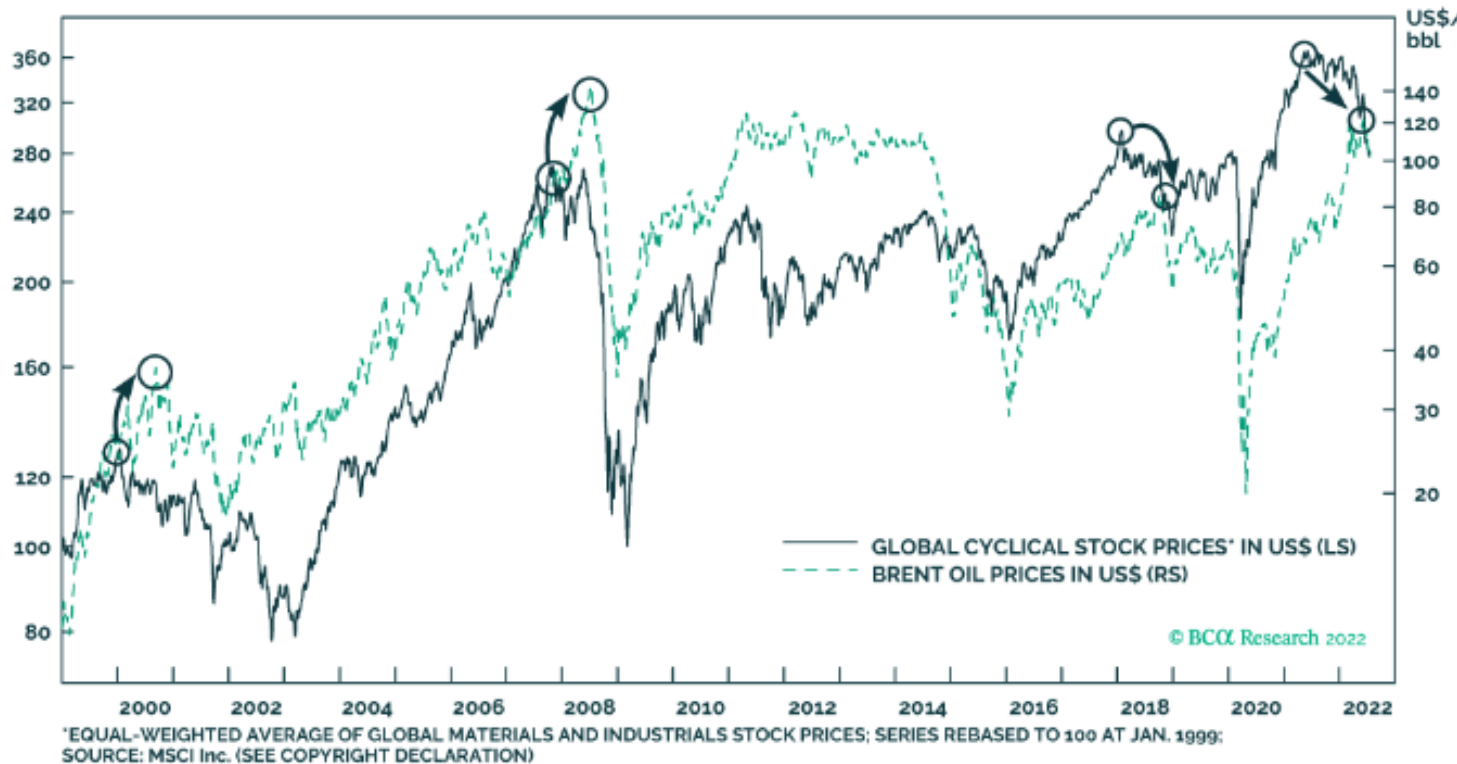


FX, Commodities & Alts – Executive Summary

- **Falling commodity prices** do not reflect an improvement in fundamentals (increase in supply) but they rather **reflect financial speculators' shifting their positions in anticipation of a withering of demand**. Oil & Wheat prices have corrected back to their price before Russia's invasion of Ukraine; Copper trades at an 18-month low.
- As recessionary fears accelerate, we expect the USD to maintain its strength which should place continued pressure on most commodity prices, especially cyclically sensitive ones like copper and iron.
- **Gold was not spared from flight to safety flows** and should continue to suffer in the dollar's strength. However, over a longer-term perspective we think gold looks like an attractive play in view of more momentum in de-dollarization trends and stagflation which would act as powerful tailwinds for the precious metal.

More room for sell off in cyclical commodities

Oil prices lag the markets. Technicals suggest early innings of a down move.



Source: BCA, July 2022

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Gold Miner Equities Look Cheap vs Gold Spot

Gold miners trade at 2S.D. spreads from gold spot



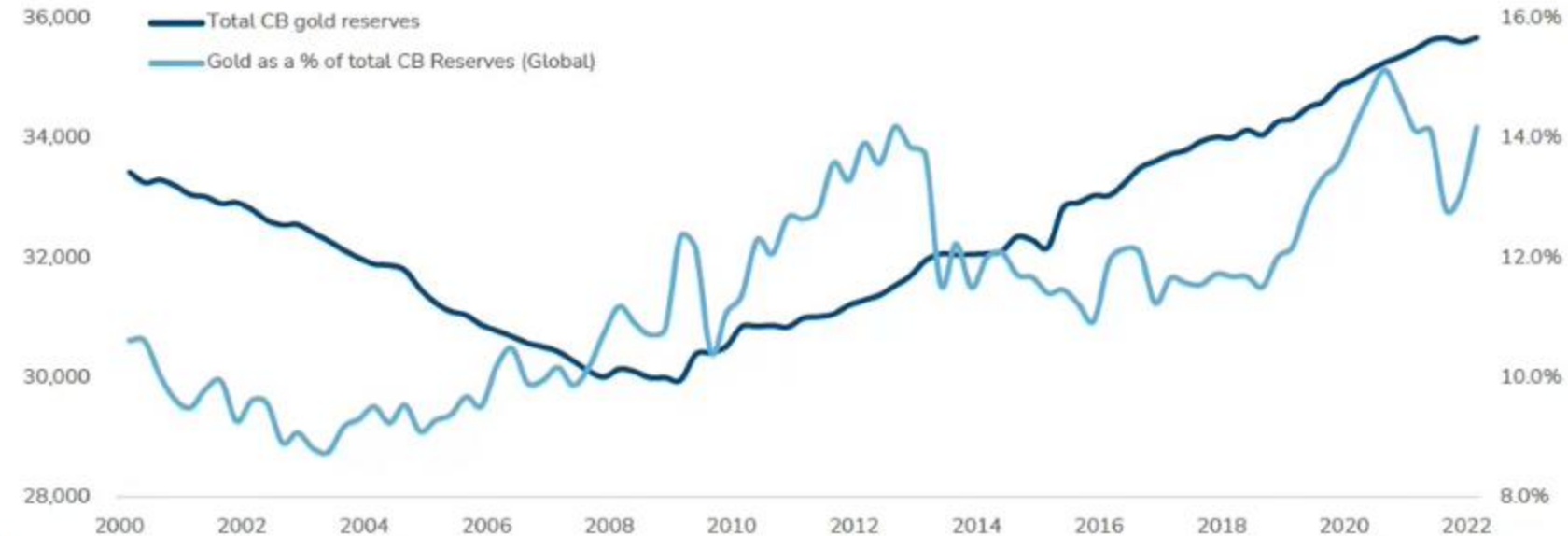
Source: Bloomberg, July 2022

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Central Bank Gold Ownership is Picking Up

Need for diversification could continue to drive de-dollarization theme

CENTRAL BANK GOLD RESERVES



Source: Delbrook Capital, July 2022

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