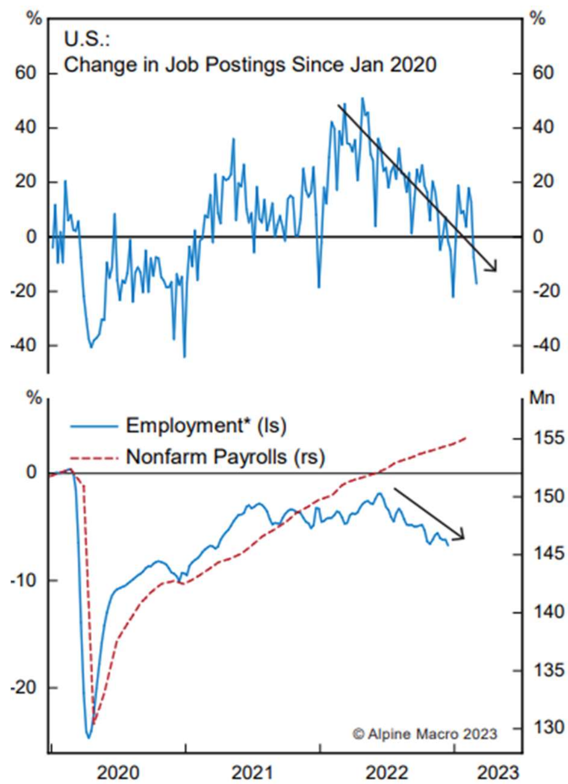
WEEKLY BULLETIN

Week of 13th March, 2023

Thought of the Week.



This article started on Friday, hours before the US Unemployment data and Nonfarm Payrolls, while looking at the Alpine Macro 2023 report about Powel's dilemma around the necessary tightening to be executed on the 14th March.

Other central banks have diverged from the Fed 's view and are keeping interest rates steady or send serious dovish messages. The Treasury market is sending also aggravated signals trough the yield curve inversion while stocks have fallen sharply after Powel's testimony before the congress, pointing to the view that markets consider the current Fed 's move as a potential overkill.

The Labour Department's Employment Cost Index showed compensation costs rose 1% in Q4 vs. the 1.1% expected, with a lower number being a positive in fighting inflation. Powell has highlighted the surplus of job openings relative to unemployed workers as a key reason for unusually strong wage growth.

Monday follow up: Employment report showed that hiring remained strong in US and labour market is easing. This report adds little resolve to Fed 's strategy in assessing the pace of rate increase. Attention is now on the CPI number coming this week, to understand whether inflation is really cooling at no significant risk to labour market.

Events Summary for Previous Week.

US Economy/Politics

- US solar builders face delivery woes in pull away from China – 3 Mar
- Biden admin prepares new rules for US investment in China – 6 Mar
- Biden's US$6.8 trillion budget challenges Republicans, raises taxes on rich – 10 Mar

Europe and UK Economy/Equity

- More than a million French workers strike against pension reform – 7 Mar
- EU suppliers wary about doing business in UK, warn manufacturers – 8 Mar
- Volkswagen warns EU that US is beating it in race to attract battery makers – 9 Mar.

Asia Pacific Economy/Equity

- China plans 7.2% defence spending rise this year, faster than 5% GDP target – 5 Mar.
- Hong Kong loses lustre as retail units go vacant and big brands look to China – 7 Mar
- India's Adani Group pre-pays over $900 million worth share-backed financing – 8 Mar.

Other News.

- First week for Kazuo Ueda as BOJ governor.
- US CPI announcement on the 14th March.
- SVB saga develops.

Weekly Data Monitor.

Performance

- Equities on a backfoot.
- Bonds held the level.
- Global Hedge Funds stable.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	-1.02	-0.64	3.43	-5.28	33.46	29.91
Global Real Estate	-2.09	-2.57	0.56	-17.23	0.81	22.18
US Real Estate	-2.34	-2.43	0.88	-15.60	4.97	31.83
APAC Real Estate	-1.40	-1.17	-1.51	-12.57	-20.20	-23.24
Investment Grade	0.03	-0.31	2.16	-4.19	7.60	14.98
High Yield Bonds	0.33	-0.27	-0.42	-12.24	-16.46	-8.90
Global HF Real Estate	-0.11	0.20	1.39	-0.18	8.73	8.62
Global HY ETF	-1.23	-3.37	4.06	-4.47	26.02	-6.23
ASIA Real Estate ETF	-2.00	-2.71	-2.08	-15.55	-13.21	-20.98
USD Index	0.72	0.38	1.69	6.87	9.19	16.85

Weekly chart:

Trying to find clues about rates:

- Bonds strong vs. Equities
- US$ strong versus Brent Crude

Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE is the LATEST

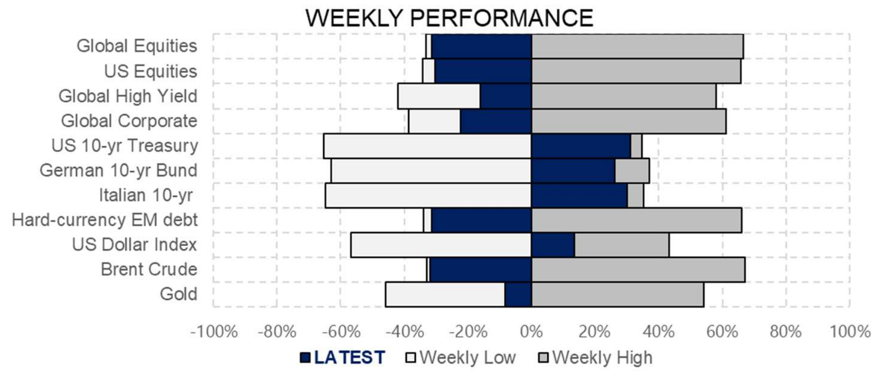
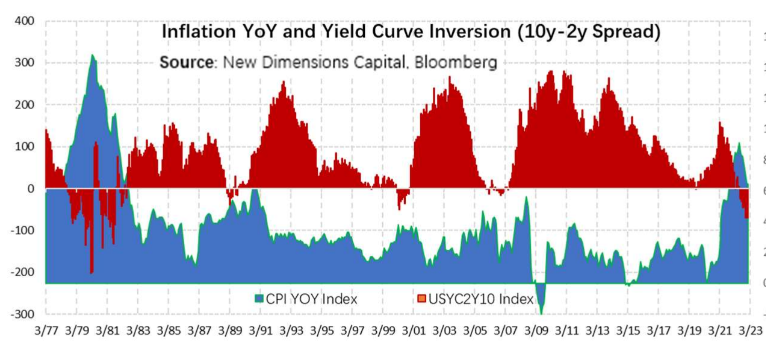


Chart of the Week.

Professional literature shows that the yield-curve slope becomes negative before each economic recession since the 1970s. The immediate conclusion would be that the slope of the yield curve contains information about current and expected future monetary policy actions. We argue that besides the effects of the monetary policy expectations, there is need to account for several other risk factors (GDP, unemployment, geopolitical ,..).



It is hawkishness rather than dovishness that leads to inverted yield curves and recessions. Furthermore, the current US unemployment rate is seen running below its natural long-run level of 4.5%. This 'entitles' the Fed to rise target rate and slow growth sufficient to allow unemployment to raise from current levels of 4% to the long-run level.

While the yield curve inversion is the proverbial canary in the coal mine, it should not be a single factor in investors' mind. Additional factors provide significance to its meaning these days: the QE unwinding process, Russia invasion of Ukraine, a global pandemic into its third year.

For the asset allocation framework, we propose:

- avoid banks and invest in utilities, due to the profit structure of their business model versus short term and long term borrowing/ lending.
- Invest in short term bonds.
- Invest in upstream energy stocks and high-quality dividend stocks, at good valuations (buy on dips).