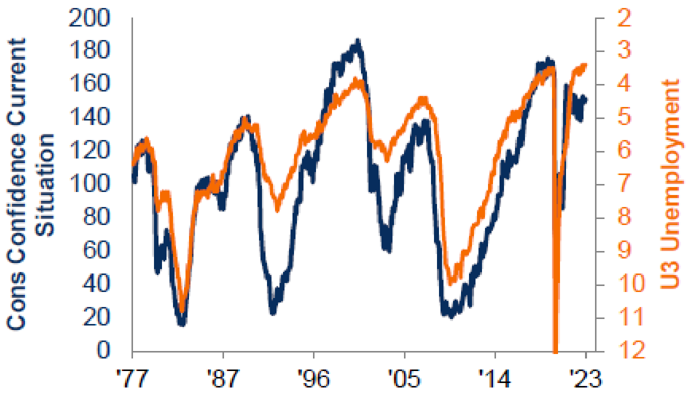
WEEKLY BULLETIN

Issue #1 June 2023

Thought of the Week.

"In discussing the likely effects on inflation of recent banking-sector developments, several participants remarked that tighter credit conditions may not put much downward pressure on inflation in part because lower credit availability could restrain aggregate supply as well as aggregate demand." - FOMC Minutes.

The immediate conclusion is that FED will pause in June and then hike in July. Very disconcerting perspective, since we face severe credit crunch and post-debt ceiling liquidity shock.



There is a growing market consensus that keeps delaying the onset of the "unavoidable" recession. Against a backdrop of banking crisis, significant yield curves inversion, Fed Funds way above the 2.5% neutral rate, fading earnings announcements, and some other reasons, the case for recession is still perceived as weak. U3 unemployment is a coincident indicator, but we need to follow the Conference Board's Consumer Confidence (Current Situation) for any potential drop (in an inverted chart – orange line).

An important indicator to watch is the state of the bond market, especially the credit market. State Street 's "Mr Risk" is recommending monitoring the recession predicting stakes in the Fed's Excess Bond Premium recession indicator. It currently points at 28% recession risk where the 40-year average is 26%.

Although avoiding recession is not on FED KPIs. This may be the framework they are considering when looking to raise rates in July… provided it doesn't happen earlier (for now, June rate hike is an event with very low probability).

Last Week 's Market Events.

US Economy/Politics

- Hedge funds drop European stocks for US and Japan, client notes from JPM, MS and GS show – 5th Jun.
- US sues Binance and founder Zhao over "web of deception" – 6th Jun.
- US trade deficit widens to 6-month high, expected to dent economic growth – 8th Jun.

Europe and UK Economy/Equity

- Europe gas prices surge 20% as market shows signs of tightening – 5 Jun.
- UK consumer slow spending in May as rising food costs bite – 6 Jun.
- EU eyes conflict of interest crackdown in ESG rating rules – 7 Jun.

Asia Pacific Economy/Equity

- China green drive creates country's first carbon-negative island – Lingshan Island in Qingdao – 5th Jun.
- China exports plunge by 7.5% in May, far more than expected – 7th Jun.
- Japanese investors plan to sue MUFG unit over Credit Suisse bonds – 9th Jun.

Notable News and Quotes.

- FOMC meeting 13-14th June.
- BOJ Ueda flags shift in corporate pricing, upward inflation bias – 8 Jun.

Weekly Data Monitor.

Performance

- Small reversal in equities market
- APAC real estate keeps weak.
- US$ backs off from last week 's highs.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	0.40	3.04	10.96	6.32	29.29	40.07
Global Real Estate	0.83	3.14	0.71	-9.89	3.91	18.03
US Real Estate	1.23	3.56	1.88	-7.24	8.54	25.31
APAC Real Estate	0.00	0.00	-7.52	-14.64	-22.73	-29.94
Investment Grade	0.16	1.01	4.69	2.75	6.71	17.03
High Yield Bonds	-0.04	0.15	1.59	-2.48	-13.89	-5.20
Global HF Real Estate	0.17	0.48	0.35	-1.36	7.98	7.84
Global HY ETF	1.02	-0.97	6.90	-0.70	25.29	18.84
ASIA Real Estate ETF	-1.26	-0.57	-4.92	-18.54	-11.47	-2.67
USD Index	-0.62	-0.92	-0.15	0.14	7.31	10.51

Weekly chart:

- EM debt joins Brent Crude in volatility
- ··· but closes higher.
- US equities lead the group in recovery.

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

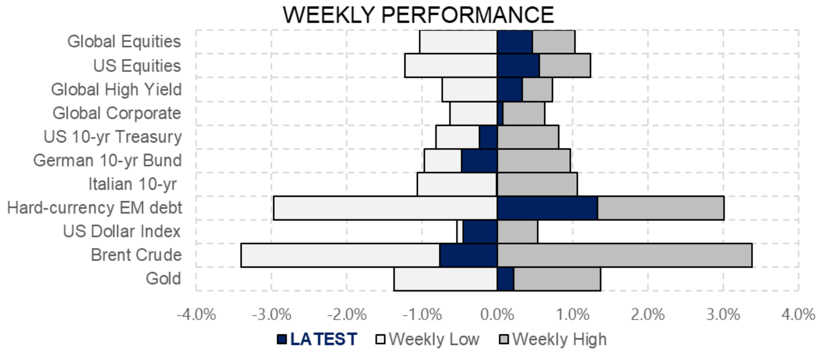
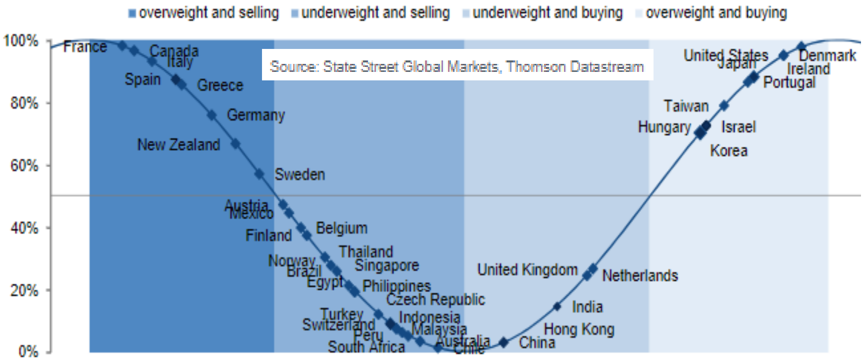


Chart of the Week.

Last week 's Chart of the Day pointed out the link between tighten loan conditions and manufacturing output, one way to evaluate the effects of contracting PMI and the financial condition of US.



We expand to a global view, and for this week 's Chart of the Week analyse the regional flows and holdings as measured by the world 's largest custodian, State Street.

The report is looking mainly at Europe, but we are checking the figures for China and the relevance of the usual narratives in the underlying holdings and flows for the respective country. After a strong quarter for Europe and a weak one for China, we see a relative reversal recently in terms of flows. Our view is that the story for China was always more about domestic demand than global manufacturing, and recent activity may prove us correct.

Institutional investors continue to be risk adverse as discussions about rate hikes and higher probability of recession intensify. There seem to be strong demand for EM equities driven by EM Asia, with buying of India and Chinese stocks against the overvalued commodity heavy counties in Latin America.

Flows in April showed clear disappointment by the global investment community, but the weak momentum should also be explained by the seasonality in the Chinese economic data. The slight pickup in the CAIXIN version of the manufacturing numbers and the returning credit flows may show a stronger month of May for China.

Refinitiv data also shows foreigners sold $1.71 billion worth of mainland shares in May via Stock Connect, a key cross-border link between the mainland and Hong Kong exchanges. The risk premium for Chinese markets has increased due to the regulatory scrutiny in some sectors, investors needing greater returns to allocate more capital to this market.