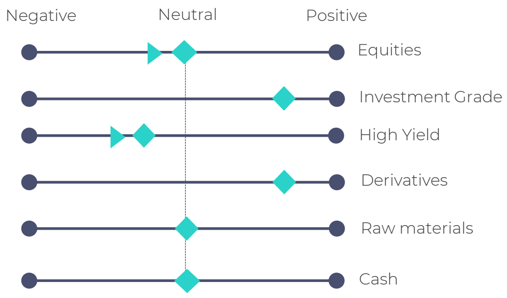

# MONTHLY NEWSLETTER – November 2022

**Jean-Philippe PETIT**
Chief Investment Officer

"We have seen this month a tilt of inflation with falling figures in the United States. End of monetary tightening might now be expected for Q1 2023 . We are upgrading our equity allocation to "neutral", in line with the long-term strategic asset allocation as central bank overtightening risk is decreasing. To turn bullish, we would need more evidence of inflation coming down, central banks to become less hawkish and earnings downward revision under control (soft landing)."

## OUR MARKET VIEWS




## MARKET CATALYSTS

- **Slowing monetary tightening cycle** (FED) (short term)
- **Continuing inflation easing and a less tight labour market (US)**
- **Easing of tensions between Russia and Ukraine**
- **Energy prices decrease in Europe**

## KEY INDICATORS

| Equities (%) | Level | Oct. | Nov. | YTD 2022 |
|---|---|---|---|---|
| S&P 500 | 4,080 | 7,99 | 13.79 | -14.5 |
| Nasdaq 100 | 12,030 | 3,96 | 9.65 | -26.2 |
| Eurostoxx 50 | 3,965 | 9,02 | 19.48 | -8.1 |
| FTSE 100 | 7,573 | 5,46 | 9.85 | 1.8 |
| China SI 300 | 3,853 | 2,91 | 1.27 | -21.6 |
| Emerging markets | 972 | -7,78 | 11,02 | -20.6 |

| Bonds (rate spreads) | Level | Oct. | Nov. | YTD 2022 |
|---|---|---|---|---|
| **10 year government bonds** | | | | |
| US | 3.61 | 0,22 | -0.22 | 2.1 |
| Europe | 1.93 | 0,03 | -0.18 | 2.0 |
| **Corporate – 5 years spread** | | | | |
| Investment Grade US | 75.64 | -17,76 | -32.39 | 30 |
| Investment Grade Europe | 123.08 | -17,48 | -34.00 | 34 |
| High Yield US | 452.49 | -89,20 | -157.22 | 184 |
| High Yield Europe | 458.81 | -86,38 | -182.40 | 210 |

| Currencies (%) | Level | Oct. | Nov. | YTD 2022 |
|---|---|---|---|---|
| EUR / USD | 1.0406 | 0,82 | 6.16 | -8.2 |
| GPB / USD | 1.2058 | 2,68 | 7.95 | -10.2 |
| CHF / USD | 1.0574 | -1,42 | 4.37 | 3.4 |

| Commodities (%) | Level | Oct. | Nov. | YTD 2022 |
|---|---|---|---|---|
| Gold | 1,769 | -1,63 | 6.50 | -2.6 |
| Brent | 85 | 7,81 | -2.88 | 11.7 |
| Wheat | 772 | -4,26 | -16.28 | -2.7 |
| Copper | 373 | -6,07 | 9.29 | -13.8 |
| Aluminium | 2,455 | -1,10 | 13.43 | -12.1 |

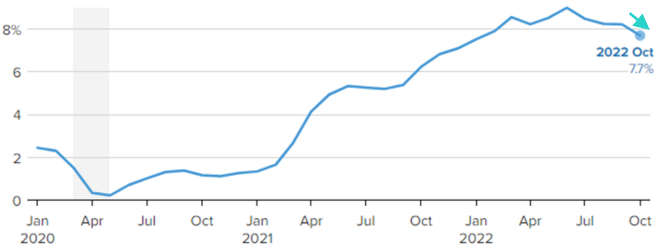
| Volatility | Level | Oct. | Nov. | YTD 2022 |
|---|---|---|---|---|
| S&P 500 | 21 | -19,14 | -30.93 | 8.0 |
| Nasdaq 100 | 21 | -18,15 | -34.91 | 19.6 |

| Cryptos (%) | Level | Oct. | Nov. | YTD 2022 |
|---|---|---|---|---|
| Bitcoin | 17,11 | 5,05 | -11.95 | -63.6 |
| Ethereum | 1,30 | 17,51 | -2.62 | -65.4 |

*Sources: Bloomberg, Norman K. - Data as of November 30th, 2022. Non-contractual information.*

## CHART OF THE MONTH

### Year-over-year change in the consumer price index




Note: As of Nov. 10, 2022

Source: US Bureau of Labor Statistics

**Slowing inflation in the US**

Consumer prices rose by 0.4% in October, less than expected. Core CPI increased 0.3% for October and 6.3% on an annual basis, compared with respective estimates of 0.5% and 6.5%. Inflation numbers have been weaker than expected with the CPI coming in below expectations as well as the PPI.

## MARKETS IN NOVEMBER

### Disinflation doesn't mean weak inflation

**Macroeconomic environment**

| | |
|---|---|
| Easing of US inflation data | Still tight US labour market |
| FED less hawkish tone | Slowing economic growth (PMI) in Europe and the US |

Zero-Covid policy impacting Chinese growth

**USA**

- Lower but still high inflation data
- FED officials expecting to switch to smaller interest rate hikes
- Services inflation and labour market remaining tight
- Slowing growth

**EUROPE**

- PMI declining for the 5th consecutive month
- Slight decrease of inflation in november
- Energy prices remaining high
- Inflation peak not yet reached according to the ECB
- Persisting Ukraine / Russia tensions
- Slowing growth

**Lower inflation but still high interest rate environment with a slowing economic growth**

Markets will continue to look closely to data, especially the data of the **still tight labour market**, closely watched by the FED.
If the Fed's increase in key rates enables to raise short-term rates in the market, the reduction of the **balance sheet** plays the same role on long term rates. To date, central banks, including the Fed, have not yet undertaken any real reduction of their balance sheets. When this will happen, the decline in liquidity could **contribute to the possible recession**.
We remain **positive on fixed income,** especially on IG segment.
Even if **slowing inflation also means slowing economic growth** (slowing hirings, headwinds in the real estate, contraction of ISM, slowing consumer confidence), we raise our **equity recommendation from negative to neutral**, as we anticipate the end of the Fed's monetary tightening for early 2023 and although the volatility will remain elevated, a less hawkish FED should bring some **support to market valuation**.
However, we recommend taking advantage of the rally to sell positions and **generate capital gains**. The recent rally should also enable to **invest in some rigorously selected stocks** (strong balance sheets, high cash flow generation.

## WHICH OPPORTUNITIES IN THIS CONTEXT?

| Markets rebound | High credit spreads | Dislocated markets |
|---|---|---|
| • Generate Capital Gains<br>• Invest in selected stocks | • Short duration in the Investment Grade segment | • Portfolio « derisking »<br>• Secondary Private Equity |

*Sources: Norman K. - Data as of October 31st, 2022. Non-contractual information.*

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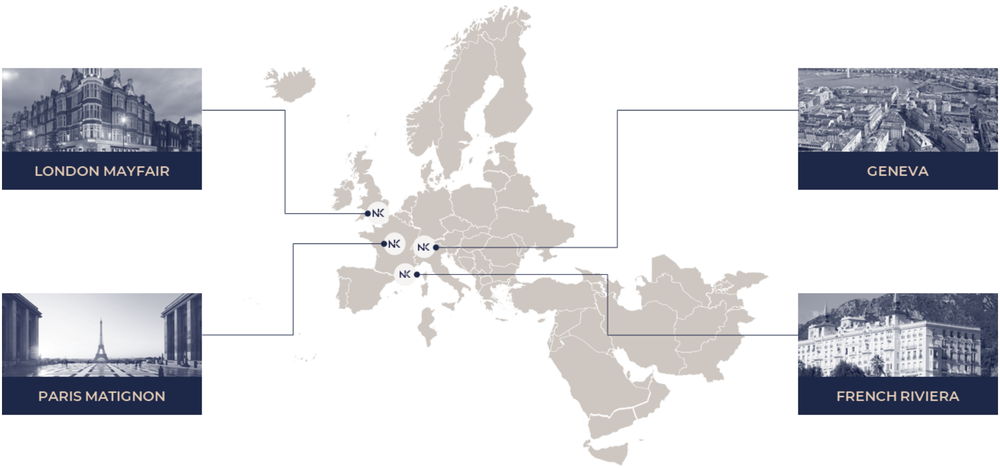
## NK LOCATION

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