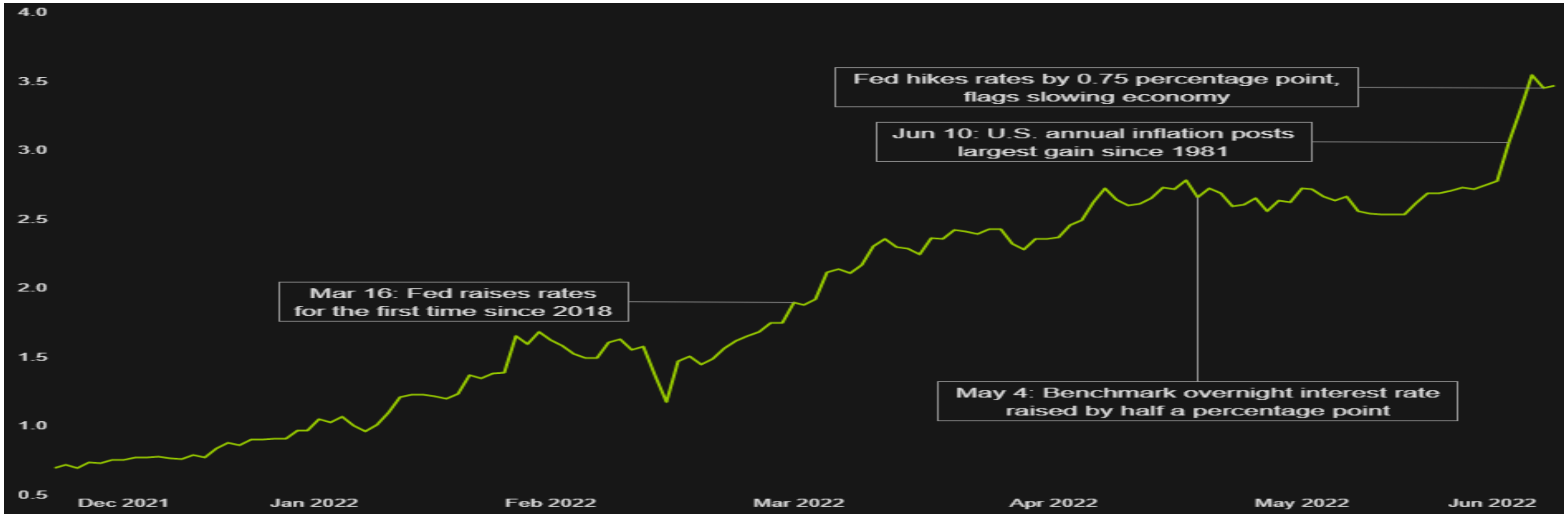
VERNY CAPITAL

US’ Interest Rate Hikes & Implications on Global Markets

US Fed Reserve raised its key rate by 75bps in June, the largest increase since 1994 to stem a surge in inflation

30-Day US Federal Funds Composite (for December 2022)



- ✓ The US Fed Reserve raised its benchmark interest rate by 75bps to a range of 1.5%-1.75% on 15th June, its biggest policy rate hike since 1994, to stem a surge in inflation. US' inflation unexpectedly accelerated further to 8.7% in May vs. 8.3% in April.

- ✓ The US central bank is expected to continue hiking interest rates aggressively as it faces soaring inflation. Fed fund futures traders are pricing in a 78% probability of a 75bps rate hike in July, and a 22% probability of a 50bps rate increase.

- ✓ The Fed's benchmark rate is expected to increase to 3.5%-3.75% by end-2022.

- ✓ The US' labour market remains strong, with unemployment rate at 3.6%. Fed policymakers projected unemployment rising to 4.1% by 2024, as growth slows to 1.8% and inflation falls to 2.2%.

- ✓ On 17th June, the New York Fed published results from an economic model showing probabilities of a hard landing (defined as one quarter over the next 10 quarters where GDP shrinks by at least 1%) are approximately 80%.

Source: Reuters

US Treasury yields surged to more than 10-year highs on expectations of aggressive rate hikes for the remaining of 2022

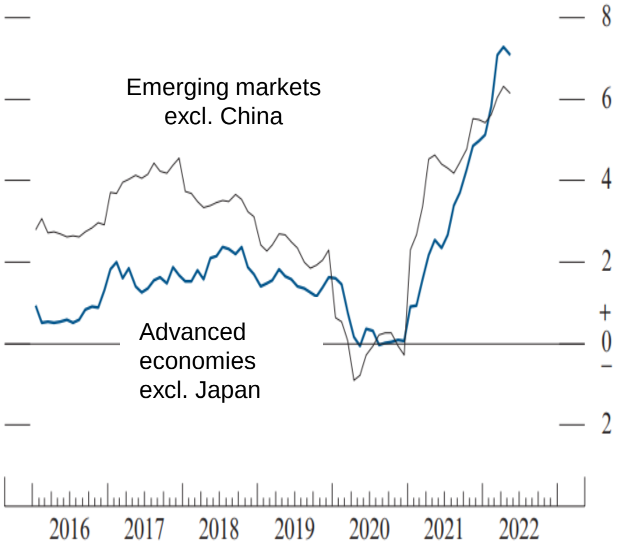
US Treasury 2-Year & 10-Year Yields, 2-Year Trends, as at 17th June 2022

- ✓ US Treasury yields held near one-week low on 17th June after a volatile five days that saw yields hit more than 10-year highs on expectations of aggressive interest rate hikes. Treasury yields then eased back on concerns about how these rate hikes might impact economic growth.
- ✓ Two-year Treasury yields, which are highly sensitive to interest rate moves, were at 3.166% on 17th June, down from 3.456% on 14th June, which was the highest since November 2007.
- ✓ Benchmark 10-year yields were at 3.239% on 17th June, after touching 3.498% on 14th June, the highest since April 2011.
- ✓ The closely watched yield curve between two-year and 10-year US Treasuries was at 7bps, after inverting by 5bps on 14th June, An inversion in part of the curve is seen as a early signal that a recession is likely in one to two years.

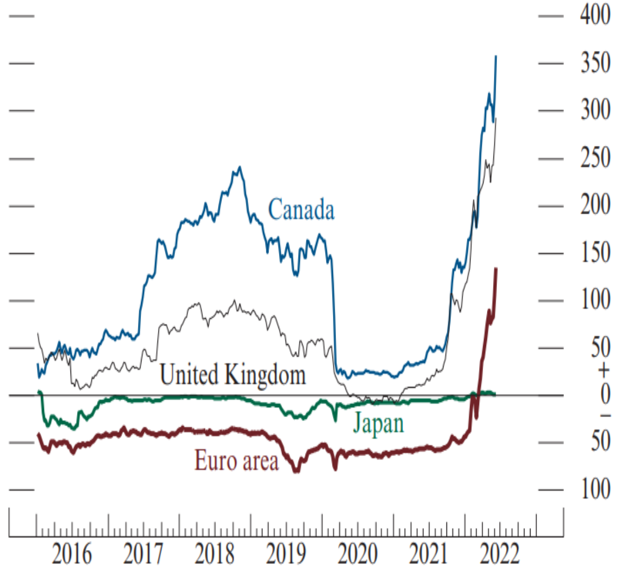
Source: Reuters

Elevated global inflation and widening price pressures have led to key central banks raising respective policy rates

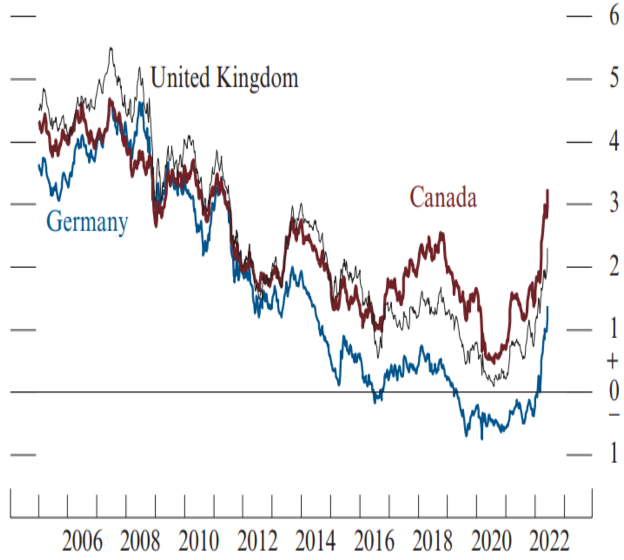
Inflation in Advanced & Emerging Market Economies



12-Month Policy Expectations of Selected Advanced Economies



10-Year Government Bond Yields of Selected Advanced Economies

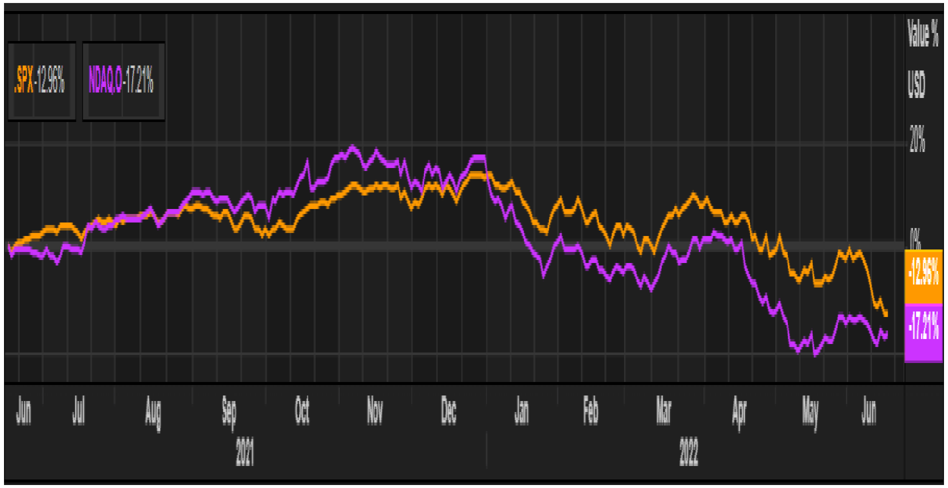


- ✓ Inflation in key economies has continued to rise. Soaring energy prices have remained a major driver of higher inflation in advance economies, while rising food prices accounted for most of the increase in inflation in emerging market economies.
- ✓ In response to elevated inflation and broadening price pressures, many advanced economies' central banks increased policy rates, and some started to reduce the size of their balance sheets.
- ✓ Concerns over the persistence of inflationary pressures led several emerging market economies' central banks, primarily those in Latin America, to raise their policy rates further. Several central banks in emerging Asia, where inflation had been more subdued but has recently begun to rise, also started to raise policy rates.

Source: US Federal Reserve, Reuters

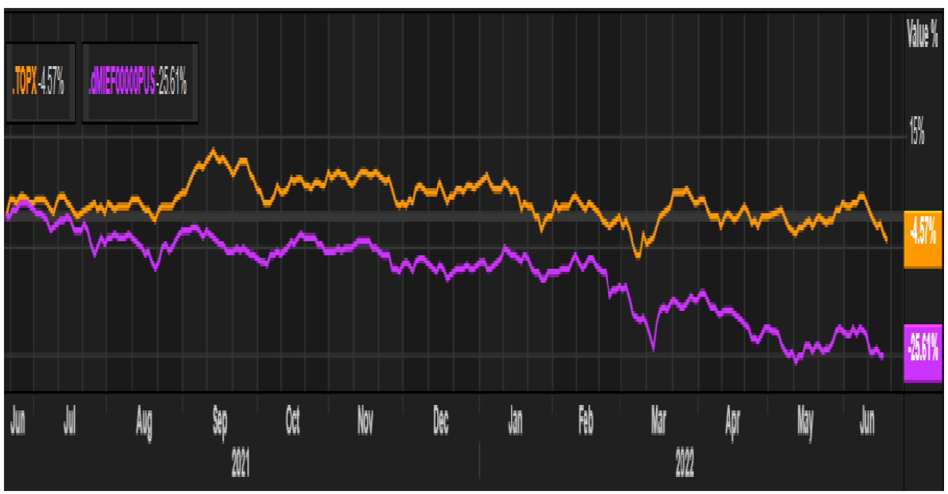
Global equities experienced steepest weekly fall since onset of pandemic

S&P 500 vs. Nasdaq Composite, 1-Year, as at 17th June



Stoxx 600 vs. DAX Index vs. CAC 40 Index, 1-Year Trend, as at 17th June

Topix vs. MSCI Emerging Markets, 1-Year, as at 17th June

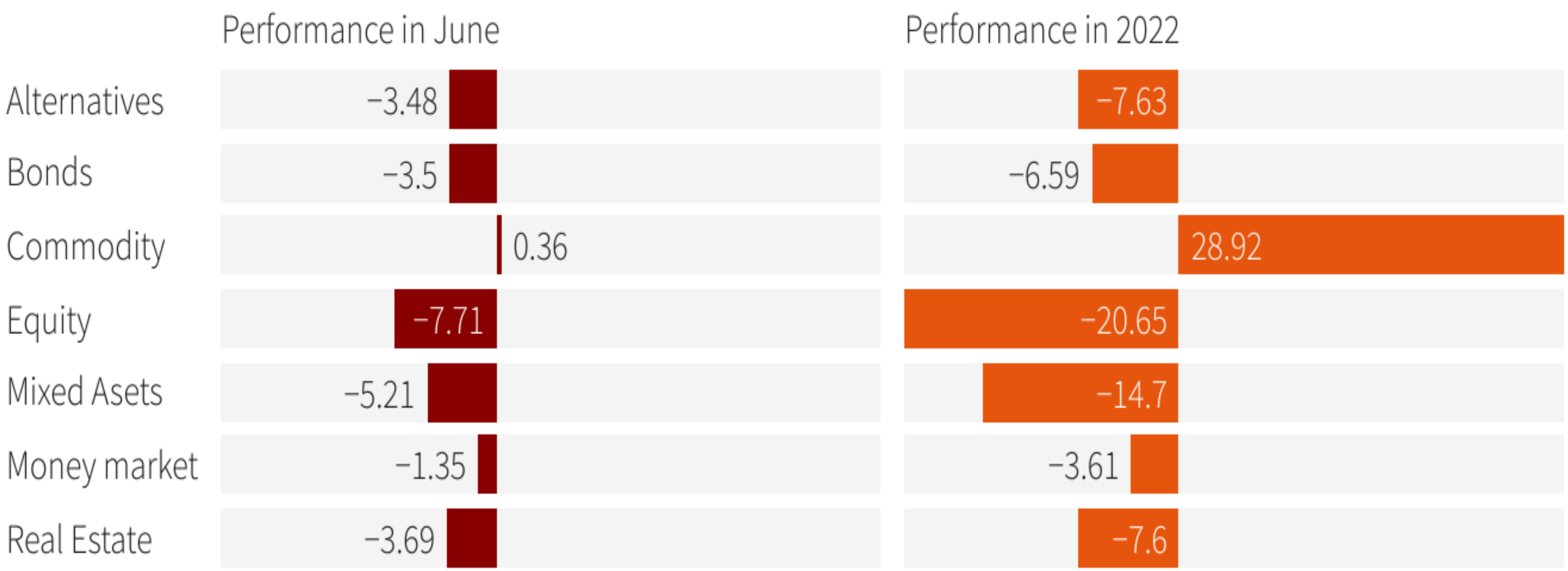


- ✓ FTSE All-World index, a measure of emerging and developed equity markets, declined 5.6% last week, the most since March 2020, as rising interest rates threaten outlook.
- ✓ S&P 500 index fell 5.8% last week, also its biggest weekly drop since March 2020. A 0.2% uptick on 17th June did little to offset losses registered in earlier trading sessions.
- ✓ In Europe, the Stoxx 600 index was down 4.6% last week, closing a marginal 0.1% higher on 17th June.

Source: Reuters

Global equity funds declined over 20% year-to-date, while global bond funds fell over 6%. Commodity funds were resilient posting gains of >28%

Global Funds Performance in 2022

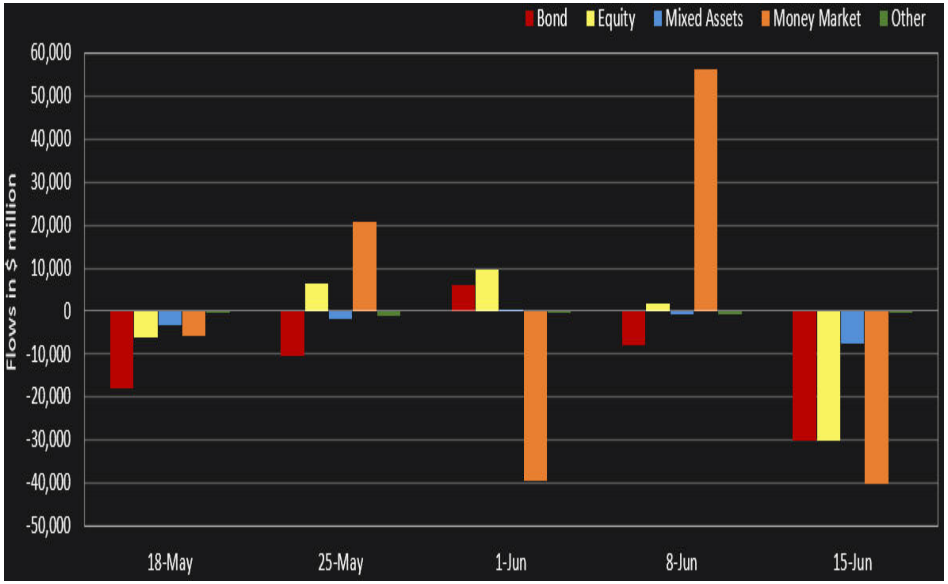


- ✓ Global equity funds have shed over 7% in June due to a slump in stock prices as higher inflation levels fuel concerns about more aggressive policy tightening by major central banks.
- ✓ Global bond funds have declined 3.5% on average in June, while money market funds fell 1.4%.
- ✓ With the sharp declines this month, global equity funds have lost one-fifth of their net asset value on average.
- ✓ On the other hand, commodity funds were relatively resilient, posting a gain of 0.4% in June.

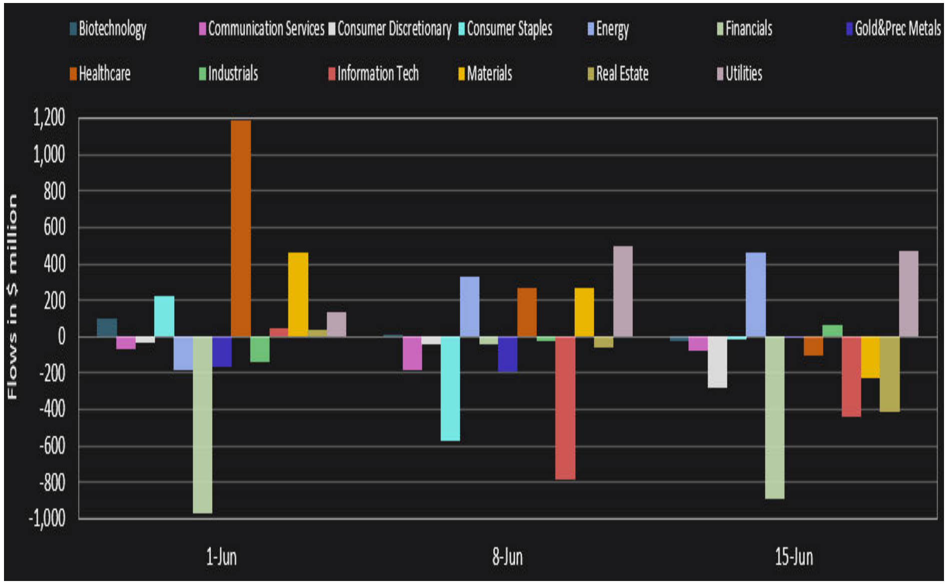
Source: Reuters

Investors liquidated global equity funds worth >USD30bln for the week ended 15th June, led by the US, European and Asian equities

Fund Flows: Global Equities, Bonds & Money Markets



Fund Flows: Global Equity Sectors

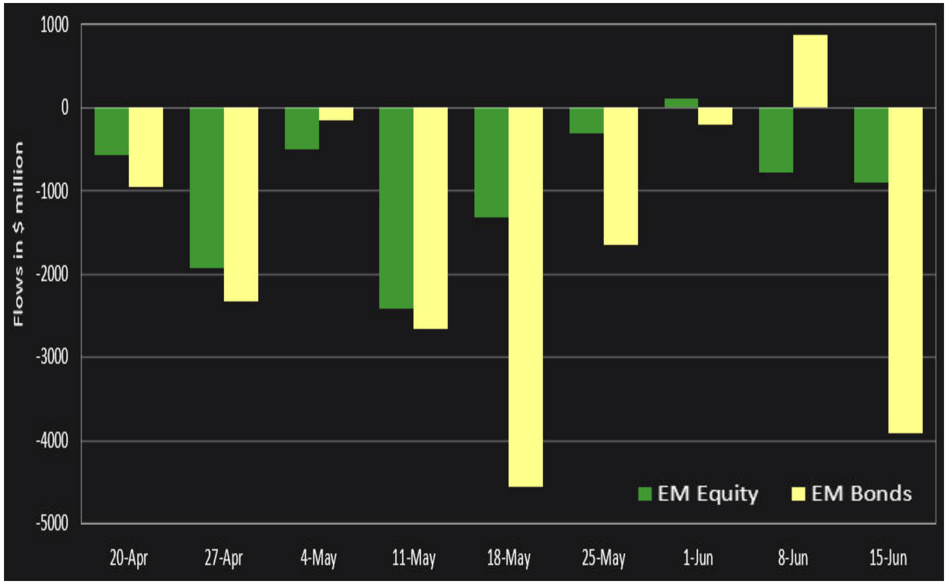


- ✓ Global investors withdrew funds out of equity and bond funds in the week ended 15th June, on elevated concerns over rising inflation levels and chances of an economic recession due to aggressive tightening measures by major central banks.
- ✓ According to Refinitiv Lipper, investors liquidated global equity funds worth a net USD30.16bln, marking their largest net selling since at least July 2020.
- ✓ Investors disposed US, European and Asian equity funds worth USD21.54bln, USD6.97bln and USD700mln, respectively.
- ✓ Financial, technology and real estate sector equity funds faced outflows of USD894mln, USD439mln and USD409mln respectively, but energy and utilities' funds attracted about USD470mln each in net buying.

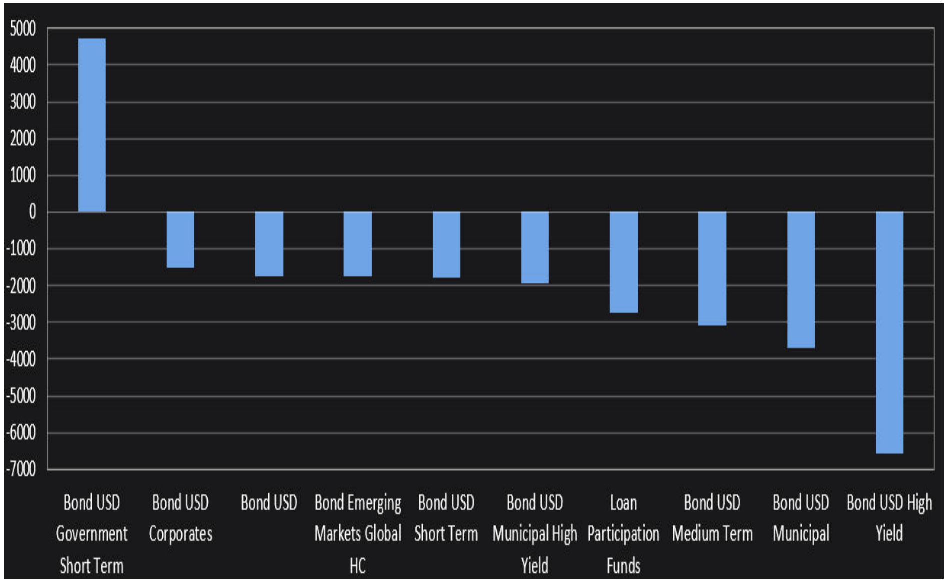
Source: Reuters

Global bond funds recorded outflows of USD30.13bln for the week ended 15th, the biggest for a week since at least July 2020

Fund Flows: EM Equities and Bonds



Global Bond Fund Flows in the week ended 15th June , USD mln

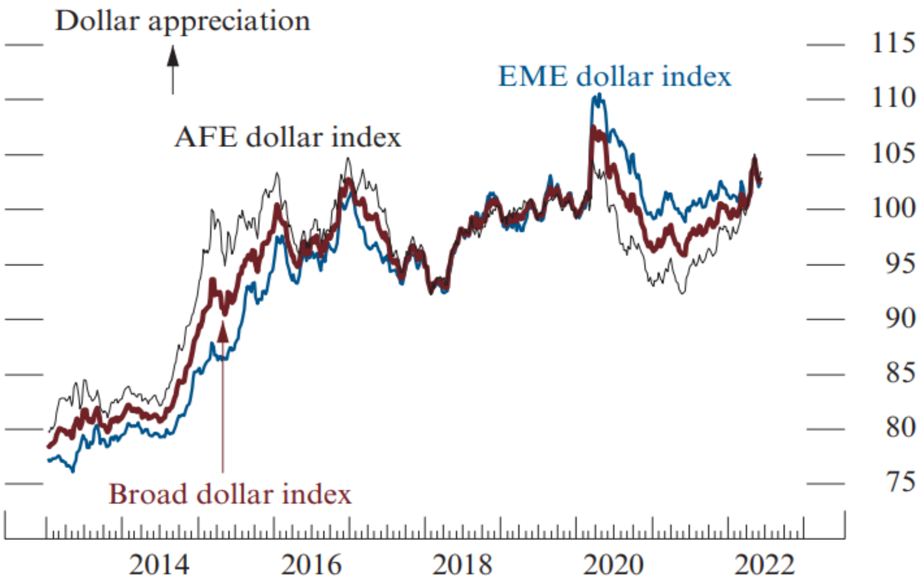


- ✓ Meanwhile, global bond funds recorded outflows of USD30.13bln, the biggest for a week since at least July 2020.
- ✓ Investors offloaded global high yield, short- and medium-term, and government bond funds of USD10.24bln, USD6.52bln and USD873mln respectively.
- ✓ Investors also withdrew USD40.19bln out of money market funds, booking their biggest net selling in eight weeks.
- ✓ Reuters data for commodity funds showed, energy funds obtained USD282mln in a second straight week of inflows, but precious metal funds experienced a third weekly outflow in a row, amounting USD255mln.
- ✓ An analysis of 24,346 emerging market funds showed investors sold bond funds of USD3.92bln after purchase of USD880mln in the previous week, while equity funds saw outflows of USD908mln.

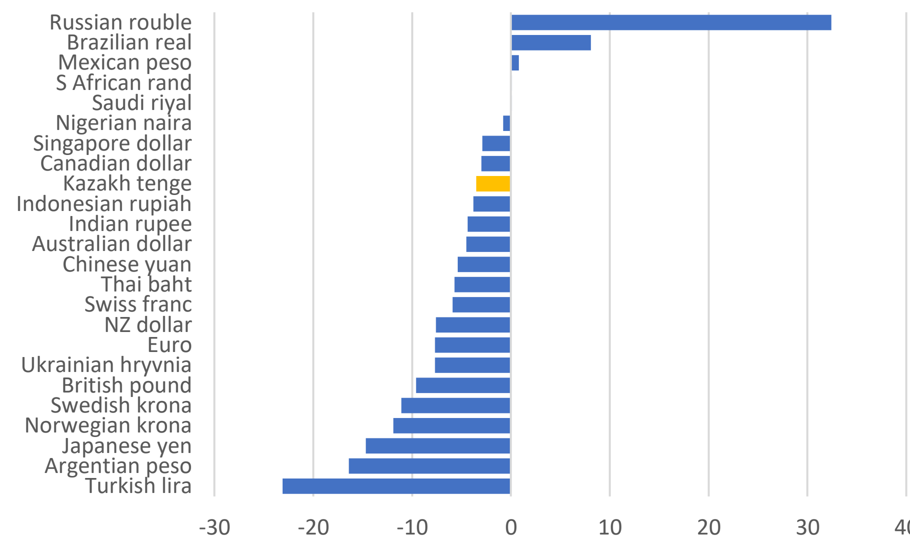
Source: Reuters

US dollar index gained 9% year-to-date, appreciated more against advanced economies' currencies vs. EM currencies

US Dollar Exchange Rate Indices



USD vs. Global Currencies Performance, as at 17th June

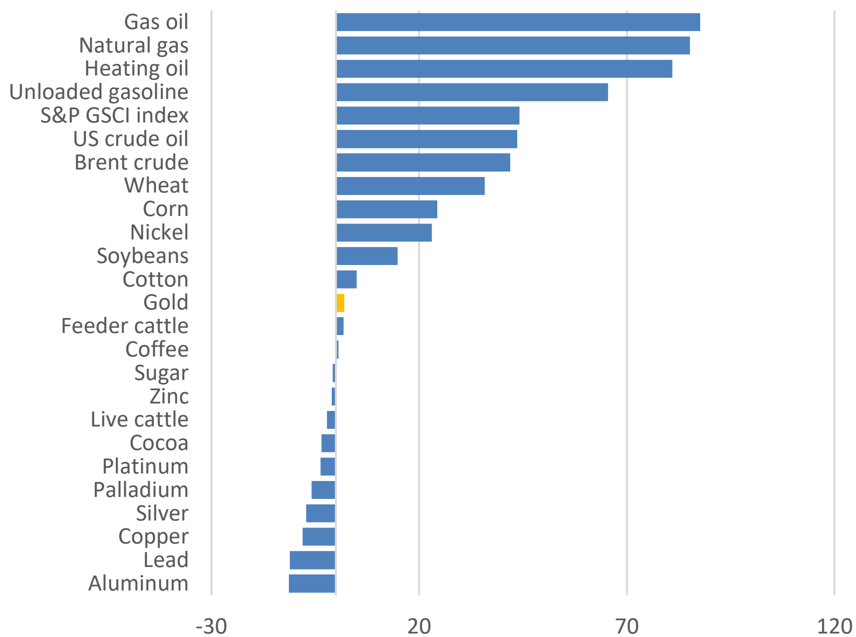


- ✓ Since the beginning of the year, the broad dollar index (a measure of the trade-weighted value of the dollar against foreign currencies) has risen notably amidst safe-haven flows and increases in US yields.
- ✓ The dollar appreciated more against advanced economies' currencies than emerging markets' currencies, as rising commodity prices supported Latin American currencies.
- ✓ The Chinese yuan depreciated against the dollar amidst growth concerns related to the lockdowns in China and weaker-than-expected Chinese data releases.
- ✓ Among advanced economies' currencies, the dollar appreciated particularly strongly against the Japanese yen, largely reflecting the widening US-Japanese yield differential.

Source: Reuters, US Federal Reserve, VC

Gold among best performing assets apart from oil and key agricultural commodities, supported by safe-haven buying

Global Commodities Performance, as at 17th June



Spot Gold vs. USD Index, as at 17th June

- ✓ Reuters' CRB Index was last quoted at 309.08 as at 17th June, having gained by 32.4% year-to-date, driven by the increase in energy and agricultural commodity prices.
- ✓ Spot gold was last traded at USD1,841.55/oz on 17th June, declined by 0.6% on the week on US' interest rate hike and high global inflation. Year-to-date, gold price gained close to 2%, one of the best performing assets (vs. global equities and global bonds which suffered double-digit losses).
- ✓ Spot gold drivers moving forward: global growth outlook, central banks monetary policies, geopolitics, global inflation, demand and supply dynamics.

Source: Reuters, VC

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