Markets
& Convictions

November 2022

RJ Management

Macro & Markets

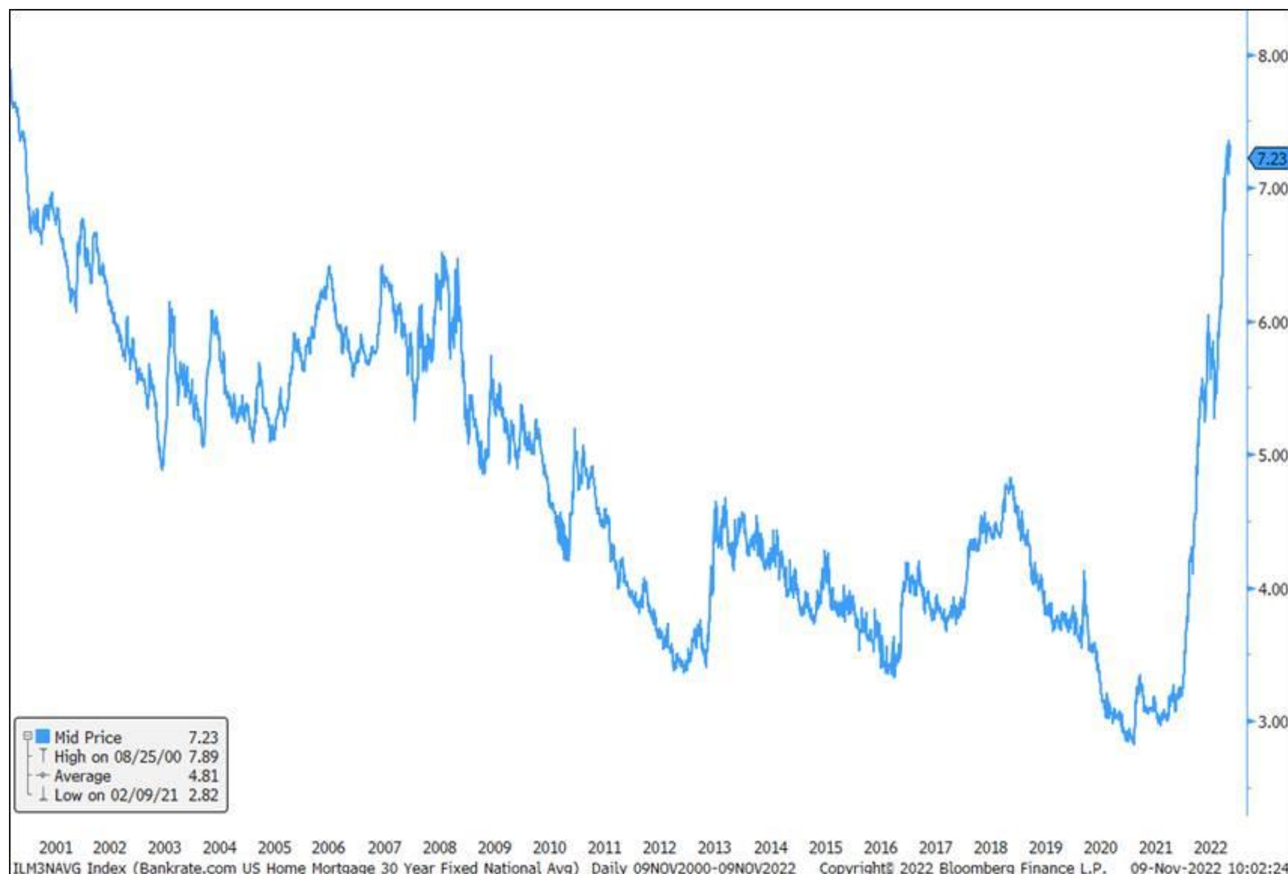
- Always and again the central banks, with the FED in the lead, have just raised their key rate to 4%.
- As a reminder, this same key rate that sets the cost of credit was at 0.25% last March
- The last FED publication and J Powell's interview are very clear about what will happen next => as long as the FED doesn't see the inflation figure going down, it will continue to raise its key rate
- Central banks are still adjusting their vision on the inflation movement and can only see that it persists
- The main objective of this monetary tightening is to slow down the economy to reduce inflationary pressures
- It is a balancing act where "ideally" the brake is sufficient to calm inflation and too timid to trigger a major recession
- When we look at the average 30-year mortgage rate in the US, we doubt the soft-landing scenario for our economies: it has risen from 3.10% in January to 7.35% today (graph below)
- The job market continues to be very buoyant with a historically low unemployment rate (US @3.7% / Eurozone @ 6.6%) and wage inflation at +4.7% for the US
- This price inflation phenomenon is supporting the growth of our economies in nominal terms: Nominal GDP US @ +4.1% / Eurozone @ 2.1%
- In Europe, inflation continues to explode with CPI at 10.7% and Core CPI (inflation calculated without the energy and food component) at +5%
- And yet the ECB is struggling to keep up with the FED's rate hike, with the EUR key rate at 2% (0% last July)
- The divergence of financial health between EU members makes the ECB's "balancing act" even more delicate
- OPEC+ has decided to reduce its oil supply to keep a balance between its production level (almost maximum) and the price level
- This move clearly goes against the short termism of the Biden administration which wants to show its commitment against expensive gasoline (election period obliges ...)
- The election of the Chinese president presages little counter-power, the capital markets are not mistaken
- The situation in Ukraine is still as complex as ever and the Russian army continues to retreat for the time being

Nos convictions

- From the interview with J Powell after his last rate hike, we retain two essential points: 1. inflation is higher than expected 2. To counteract this movement on prices, the FED will prefer too much than not enough tightening
- The market, which is speculating on a "pivot" by the FED, seems quite optimistic for the moment
- This restrictive environment for investment and credit should significantly impact the sectors where leverage is the most important: Real Estate and Private Equity
- We are therefore paying close attention to these two asset classes

- In Switzerland in particular, where some funds are currently showing stock market prices that are much lower than the value of the buildings they hold (what about possible NAV sales => forced sale of buildings as in the UK)
- Today's inflation is the result of our monetary and fiscal policies of 18 months ago (i.e., in the middle of COVID)
- We should therefore see the fruits of this massive monetary tightening started last March, during the first quarter of 2023
- Each decade has its flagship sector on the financial markets
- The years 2020-2021 are for us the turning point: tech (FANG etc...) should no longer be the darling for the next 10 years
- Our world has spent the last 10 years dematerializing with : Digital / Virtual / SaaS / Software / Crypto-Blockchain ...
- And we discover in 2022 that our world needs re-materialization: defence / security / nuclear / energy / infrastructure / mining...
- This paradigm shift is taking place at a time when the cost of capital is increasing
- Therefore, we have had significant exposure to the energy sector in our portfolios for over 18 months
- The results season has been excellent for all our positions (TotalEnergies / Shell / ENi / BP) and the performance of the stocks has been excellent
- Our other thematic stock Recovery following the COVID, is also experiencing a nice rebound and shows a performance of -3% for the year (CAC 40: -10% / SMI: -16% / S&P500: -20% / Nasdaq: 100 -32%)
- The first negative signs of the end of this period of euphoria are numerous during these last days: the big tech companies are starting to lay off (Twitter / Meta-Facebook / Amazon) + the big crypto companies are collapsing FTX + and the brigands / influencers with ....
- In this context of economic contraction, we remain cautious, we place cash to take advantage of higher rates and rebuild a bond pocket with very short duration (6 - 24 months)
- Our equity portion is benefiting from the rebound that began in mid-October with a good earnings season
- The first signs of lower inflation (recent CPI figures) will fuel strong rebounds in the markets
- But we are keeping in mind the background picture which is still not very favourable to capital deployment
- We remain vigilant, diversified, and humble in these periods of doubt

Chart of the Month : 30y US Mortgage rate since 2000!



RJ Management SA
5 Cours de Rive
1204 Genève — Suisse

+41 22 888 00 50
info@rjmanagement.ch
www.rjmanagement.ch