



Market Review

September 2022

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Highlights:

- The amplification of geopolitical risk weighed on markets and benefitted the US dollar. The reported sabotage of upwards of a 1km stretch of pipeline in not one but two separate pipes have caused great concern in Europe, Germany in particular.
- Market participants are turning more bearish on equities for the short term, warning that markets are yet to price in the risk of a global recession. They favor high quality fixed income credit over high yield.
- Over the first three quarters of 2022, the S&P 500 has cemented its 3rd worst performance since the 1950s. Large- and small-cap Growth outperformed Value in both September and Q3. On a YTD basis, however, Value is still the relative outperformer by the widest margin since the early 2000s.
- WTI (West Texas Intermediate) crude dropped 11% in September, marking its biggest monthly decline in 2022 and its 4th consecutive month with a negative performance.
- The depreciation of the yen (-25% against USD) forced the Japanese ministry of finance to intervene in currency markets for the first time since 1998.
- Treasury rates have seen a historic rise driven by inflation and the hawkish Fed. The US two-year yield closed at 4.28% while the benchmark 10-year U.S. Treasury note reached 4.02% to closed at 3.83%
- Queen Elizabeth II, the longest-serving British monarch, has died at the age of 96. With the death of his mother, Prince Charles - proclaimed King Charles III - has finally become king of the United Kingdom and 14 other realms.
- The Bank of England dramatically intervened in the UK market to try to curb the storm around the government's spending plans.

USA:

- The Fed announced a 75-basis-point hike in the federal funds rate, bringing it to a target range of 3.00% to 3.25%, its highest since March 2008—when the central bank was in the process of cutting rates. Policymakers revealed that they expected official short-term interest rates to continue going sharply higher over the next several months. Markets are expecting another 125bps by year-end.
- September marked the single worst month for US equities since March 2020. The Dow Jones tumbled 8.8%, the S&P 500 slumped 9.2%, and the NASDAQ sank 10.4%.
- The unemployment rate rose to 3.7% from 3.5% in July .
- Service sector activity in the U.S. unexpectedly grew at a slightly faster rate in the month of August. The ISM said its services PMI inched up to 56.9 in August from 56.7 in July, with a reading above 50 indicating growth in the sector.
- U.S. consumer prices unexpectedly rose in August and underlying inflation accelerated amid rising costs for rents and healthcare. In the 12 months through August, the CPI increased 8.3%.The annual CPI has remained above 8% for six straight months. Excluding the volatile food and energy components, the CPI rose 0.6% in August after advancing 0.3% in July.
- The core (less food and energy) personal consumption expenditures (PCE) price index, widely recognized as the Fed’s preferred inflation gauge, rose at an annualized pace of 4.7% in the second quarter—well above expectations of around 4.4% as well as the Fed’s long-term 2.0% inflation target. August’s monthly core PCE surprised on the upside, rising 4.9% on a year-over-year basis, up from 4.7% in July.

Europe:

- Germany's factory orders declined at a faster pace -1.1% in July on weak domestic and euro area demand. The ifo Export Expectations index slipped to -6.0 points from -2.8 points in August. This was the lowest score since May 2020.
- According to an official first estimate, inflation in the eurozone accelerated to a record 10.1% in September from 9.1% the previous month. The figure exceeded a consensus forecast of 9.7% and reinforced market expectations for another large increase in interest rates in October.
- The ECB increased its key interest rates by a record 75 basis points in a bid to curb inflation. The deposit rate now stands at 0.75%, while the refinancing rate sits at 1.25%—their highest levels since 2011. "This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to the ECB's 2% medium-term target," the ECB explained in its official statement. Even so, the central bank indicated that more rate increases are likely.
- Traders are certain that the European Central Bank will deliver a second three-quarter point rate hike in October as policy makers step up the battle against searing inflation. Deposit rate is expected to even rose to 2% by year end and to 3% next spring.
- Switzerland's central bank lifted borrowing costs by 0.75 percentage point, taking its benchmark rate to 0.5% and shifting into positive territory for the first time since 2015. The SNB did not exclude another hike before its December meeting.
- The Riksbank raised its benchmark rate by one percentage point to 1.75%.
- In Norway, policymakers hiked rates by 50 basis points for the third time in a row to 2.25%.

UK:

- The Bank of England raised its key interest rate to 2.25% from 1.75% while mentioning it would continue to "respond forcefully, as necessary" to inflation, despite the economy entering recession. The central bank expects inflation to peak at just under 11% in October, below the 13.3% peak it forecast last month.
- The BoE estimates Britain's economy will shrink 0.1% in the third quarter - partly due to the extra public holiday for Queen Elizabeth's funeral - which, combined with a fall in output in the second quarter, meets the definition of a technical recession.
- The UK government has announced it would intervene to help reduce soaring energy costs for British households and businesses. The Financial Times reported that internal government estimates showed the size of the package could be around GBP 150 billion—bigger than bailouts during the COVID-19 crisis—and would be funded by government borrowing.
- UK consumer price inflation slowed slightly in August from a 40-year high on a fall in fuel prices. Consumer price inflation unexpectedly slowed to 9.9 % in August from 10.1 % in July.
- The unemployment rate fell to 3.6 % in three months to July, which was the lowest since May to July 1974. The rate was forecast to remain unchanged at 3.8 %.
- Despite economic pressures, UK house price inflation accelerated in September driven by middle and high-end market sectors.
- British consumer confidence slid to -49 in September its lowest level since records began in the mid-1970s.

Asia:

Japan:

- The Japanese currency breached the JPY 140 level against the U.S. dollar for the first time since 1998.
- The government announced a new package, due in October, to help the country cope with rising inflation. The package includes cash handouts to low-income households as well as measures to keep some commodity and food prices at current levels.
- Gross domestic product expanded at an annualized rate of 3.5% in the second quarter, higher than the preliminary estimate of 2.2% growth. The economy was boosted by the lifting of coronavirus restrictions, which encouraged business spending and private consumption.
- The BoJ maintained its ultra-easy monetary policy that includes setting a short-term interest rate at -0.1% and purchasing Japanese government bonds (JGB) to defend the 0.25% cap for 10-year JGB yields.

China:

- The official manufacturing Purchasing Managers' Index (PMI) rose to 49.4 in August from July's 49.0, above expectations but still below the 50-point mark that separates contraction from growth.
- China's exports growth slowed in August, as surging inflation crimped overseas demand and fresh COVID curbs and heatwaves disrupted production, reviving downside risks for the economy. Exports were up 7.1% in August on a year earlier, slowing from an 18.0% gain seen in July.
- China's consumer and factory gate inflation in August declined from July's levels and came in below analysts' expectations. Consumer prices rose 2.5% over the 12 months ended in August, while factory gate prices rose 2.5%, down sharply from 4.2% the previous month.
- China cut the amount of foreign exchange that domestic banks must hold in reserves, a move seen as an effort to bolster the yuan.

Performance September 2022:

EQUITIES	30/09/2022	31/08/2022	VARIATION
<u>USA</u>			
DOW JONES INDUS. AVG	28725.51	31510.43	-8.84%
S&P 500 INDEX	3585.62	3955.00	-9.34%
NASDAQ COMPOSITE	10575.62	11816.20	-10.50%
<u>EUROPE</u>			
Euro Stoxx 50 Pr	3318.20	3517.25	-5.66%
FTSE 100 INDEX	6893.81	7284.15	-5.36%
CAC 40 INDEX	5762.34	6125.10	-5.92%
DAX INDEX	12114.36	12834.96	-5.61%
SWISS MARKET INDEX	10267.55	10855.03	-5.41%
<u>ISRAEL/ ASIA</u>			
TA-35 Index	1837.23	2020.33	-9.06%
NIKKEI 225	25937.21	28091.53	-7.67%
MSCI EM	875.79	994.11	-11.90%
VIX Index	31.62	25.87	22.23%
MSCI WORLD	2378.65	2627.32	-9.46%

FX / COMMODITIES	30/09/2022	31/08/2022	VARIATION
EUR/USD	0.980	1.005	-2.51%
USD/ILS	3.566	3.331	7.06%
EUR/ILS	3.494	3.348	4.38%
GBP/USD	1.117	1.162	-3.89%
USD/JPY	144.740	138.960	4.16%
GBP/ILS	3.980	3.871	2.84%
USD/CHF	0.987	0.978	0.97%
WTI CRUDE	79.49	89.03	-10.72%
GOLD SPOT	1660.61	1711.04	-2.95%
BITCOIN	19425.13	20196.67	-3.82%

CENTRAL BANK RATES	30/09/2022	31/08/2022	VARIATION
Fed funds Target Rate	3.25	2.50	0.75
ECB Main Refinancing Operation	1.25	0.50	0.75
UK Bank of England Rate	2.25	1.75	0.50
Bank of Israel Base Rate	2.00	2.00	0.00
Switzerland National Bank Libor	0.00	-0.25	0.25

Fixed Income:

CORP SPREADS	30/09/2022	31/08/2022	Variation BP	30/09/2022	31/08/2022
US TSY 2Y	4.281	3.495	78.600		
BVAL AA Curve 2 Yr	4.5067	3.655	85.17	22.57	16.00
BVAL A Curve 2 Yr	4.7457	3.8678	87.79	46.47	37.28
BVAL BBB Curve 2 Yr	5.3062	4.4426	86.36	102.52	94.76
BVAL BB Curve 2Y	HY 6.8952	5.8829	101.23	261.42	238.79
US TSY 5Y	4.092	3.353	73.900		
BVAL AA Curve 5 Yr	4.6925	3.8406	85.19	60.05	48.76
BVAL A Curve 5 Yr	5.0057	4.1342	87.15	91.37	78.12
BVAL BBB Curve 5 Yr	5.6755	4.8339	84.16	158.35	148.09
BVAL BB Curve 5Y	HY 7.5267	6.5834	94.33	343.47	323.04
US TSY 10Y	3.832	3.195	63.700		
BVAL AA Curve 10 Yr	4.9308	4.151	77.98	109.88	95.60
BVAL A Curve 10 Yr	5.3024	4.504	79.84	147.04	130.90
BVAL BBB Curve 10 Yr	6.0424	5.2421	80.03	221.04	204.71
BVAL BB Curve 10Y	HY 7.881	6.9916	88.94	404.90	379.66

BONDS	30/09/2022	31/08/2022	VARIATION bp
US TSY 2Y	4.28	3.50	78.60
US TSY 10Y	3.83	3.20	63.70
UK TSY 10Y	4.08	2.80	128.62
Euro Generic Govt Bond 2 Year	1.76	1.20	55.70
Euro Generic Govt Bond 10 Year	2.11	1.54	56.70
Switzerland Govt Bonds 2 Year	0.69	0.57	12.40
Switzerland Govt Bonds 10 Year	1.19	0.79	39.80
JAPAN (2 YEAR ISSUE)	-0.05	-0.09	3.40
JAPAN (10 YEAR ISSUE)	0.24	0.22	1.80

index :			
Barclays US.Aggregate Gov/Cred	2331.06	2,430.21	-4.08%
Blomberg euro Aggregate corp	225.2044	232.94	-3.32%

Portfolio Perf	Focus USA	% equities	variation %
ISHARES CORE CONSERVATIVE AL		30.00	-5.48%
ISHARES CORE MODERATE ALLOCA		40.00	-6.08%
ISHARES CORE GROWTH ALLOCATI		60.00	-7.10%
ISHARES CORE AGGRESSIVE ALLO		80.00	-8.35%

2022 performances (YTD):

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USA			
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MSCI EM	875.79	1232.01	-28.91%
VIX Index	31.62	17.22	83.62%
MSCI WORLD	2378.65	3231.73	-26.40%

FX / COMMODITIES	30/09/2022	31/12/2021	VARIATION
EUR/USD	0.980	1.137	-13.79%
USD/ILS	3.566	3.103	14.92%
EUR/ILS	3.494	3.532	-1.06%
GBP/USD	1.117	1.353	-17.45%
USD/JPY	144.740	115.080	25.77%
GBP/ILS	3.980	4.199	-5.21%
USD/CHF	0.987	0.913	8.12%
WTI CRUDE	79.49	75.21	5.69%
GOLD SPOT	1660.61	1829.20	-9.22%
BITCOIN	19425.13	46333.65	-58.08%

CENTRAL BANK RATES	30/09/2022	31/12/2021	VARIATION
Fed funds Target Rate	3.25	0.25	3.00
ECB Main Refinancing Operation	1.25	0.00	1.25
UK Bank of England Rate	2.25	0.25	2.00
Bank of Israel Base Rate	2.00	0.10	1.90
Switzerland National Bank Libor	0.00	-0.75	0.75

CORP SPREADS	30/09/2022	31/12/2021	Variation BP	spread	
				30/09/2022	31/12/2021
US TSY 2Y	4.281	0.734	354.700		
BVAL AA Curve 2 Yr	4.5067	0.8305	367.62	22.57	9.65
BVAL A Curve 2 Yr	4.7457	0.8973	384.84	46.47	16.33
BVAL BBB Curve 2 Yr	5.3062	1.1659	414.03	102.52	43.19
BVAL BB Curve 2Y	HY 6.8952	2.1982	469.7	261.42	146.42
US TSY 5Y	4.092	1.264	282.800		
BVAL AA Curve 5 Yr	4.6925	1.5122	318.03	60.05	24.82
BVAL A Curve 5 Yr	5.0057	1.6619	334.38	91.37	39.79
BVAL BBB Curve 5 Yr	5.6755	1.9961	367.94	158.35	73.21
BVAL BB Curve 5Y	HY 7.5267	3.3428	418.39	343.47	207.88
US TSY 10Y	3.832	1.512	232.000		
BVAL AA Curve 10 Yr	4.9308	2.1275	280.33	109.88	61.55
BVAL A Curve 10 Yr	5.3024	2.3236	297.88	147.04	81.16
BVAL BBB Curve 10 Yr	6.0424	2.7136	332.88	221.04	120.16
BVAL BB Curve 10Y	HY 7.881	4.1879	369.31	404.90	267.59

BONDS	30/09/2022	31/12/2021	VARIATION bp
US TSY 2Y	4.28	0.73	355
US TSY 10Y	3.83	1.51	232
UK TSY 10Y	4.08	0.97	312
Euro Generic Govt Bond 2 Year	1.76	-0.62	238
Euro Generic Govt Bond 10 Year	2.11	-0.18	229
Switzerland Govt Bonds 2 Year	0.69	-0.75	144
Switzerland Govt Bonds 10 Year	1.19	-0.15	134
JAPAN (2 YEAR ISSUE)	-0.05	-0.09	4
JAPAN (10 YEAR ISSUE)	0.24	0.07	17

index :			
Barclays US.Aggregate Gov/Cred	2331.06	2,745.71	-15%
Blomberg euro Aggregate corp	225.2044	263.64	-15%

Portfolio Perf	Focus USA	% equities	perf ytd %
ISHARES CORE CONSERVATIVE AL		30.00	-18.47
ISHARES CORE MODERATE ALLOCA		40.00	-19.49
ISHARES CORE GROWTH ALLOCATI		60.00	-21.55
ISHARES CORE AGGRESSIVE ALLO		80.00	-23.85



Stay tuned for our next Market Review!

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