

February 24, 2022

Flash Market Update

Dear Clients,

Allow us to start by saying we are no geopolitical experts. Rather than providing you with an opinion on the crisis happening at the eastern European border, we wanted to take the time to inform you on the recent market developments and the actions we are taking in portfolios.

Global risk assets are down substantially from their all-time highs recorded just a few weeks ago (**Chart 1**). The S&P 500 (**Chart 2**) is down 14% from its cycle peak on January 4, 2022. The Nasdaq (**Chart 3**) is down more than 20% from its cycle peak on November 22, 2022, thus entering bear market territory. The Euro Stoxx 600 is down 12% from its cycle peak also on January 4, 2022. The VIX (**Chart 4**), measure of market volatility, is trading well above 30 today and has been trading above 20 for much of 2022 so far. However, not all asset sectors were down in the past couple months. The energy sector is up double digits so far this year meanwhile financials and consumer staples maintain a strong degree of relative outperformance (**Chart 5**).

Credit was in no way a safe haven so far this year either. US 10-Year (**Chart 6**) yields rose as high as 2.07% while the US 2-Year yields went as high as 1.63%, pricing in more than 6x 25bps rate hikes from the Fed.

We have warned about this potential price action in financial markets for some time. The start of an aggressive interest rate hike cycle in the US due to high inflation in a marginally slowing economy is the recipe for a financial market correction. The conflict in Ukraine aggravates the situation by keeping energy prices higher for longer and therefore re-enforcing the risk that global inflation stays elevated for a few more months. We had been prepared with some equity market protection through options, a carefully selection of hedge funds and some exposure to precious metals that tend to do well during periods of uncertainty.

While the conflict in Ukraine can (and may) carry on for longer and put further pressure on asset prices, we are starting to believe that selloffs in financial markets and the indirect impact on global economic growth may slow Central Banks intentions to increase interest rates at a faster pace. Bond markets used to price a 50bps US rate hike in March a few weeks ago. This has fallen back to a 25bps US rate hike. A slower pace of rate hikes and hopefully a not-so-distant resolution of the conflict in Ukraine could lead to a relief rally in financial markets. Considering our low exposure to equity markets and our elevated level of financial market protection, we are taking advantage of the current market volatility in different ways explained below.

Investment Implications

Using elevated market volatility and oversold technical to sell Put Options “at the money” with a June maturity in the Euro Stoxx 50 ETF and Nasdaq 100 Index ETF. The premium earned is attractive in a market environment as today.

Partially selling down exposure to gold (**Chart 7**) to crystallize some profits. We are keeping a constant 2% allocation to gold.

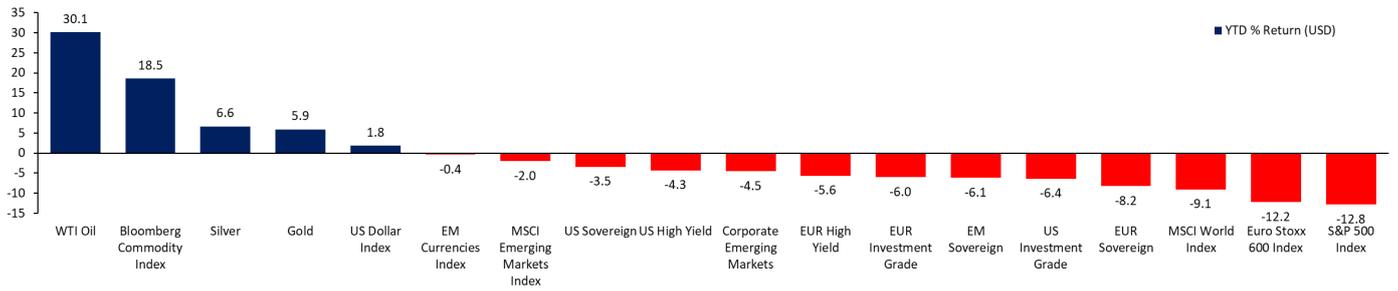
Other actions are being taken in the certificates and funds managed internally at MAM with for instance the sale of put options in single stocks with elevated volatility profiles in the “Best Ideas Certificate”.

As always, please feel free to reach out and let us know if you have any questions.

Kind regards,

MAM Investment Team

Chart 1. Global Asset Class Performance YTD



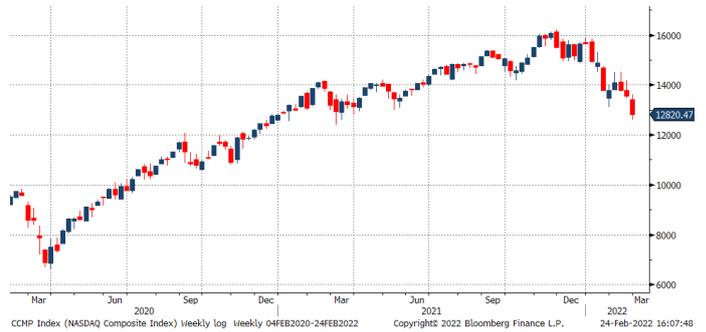
Source. Bloomberg, MAM Research

Chart 2. S&P 500 Index



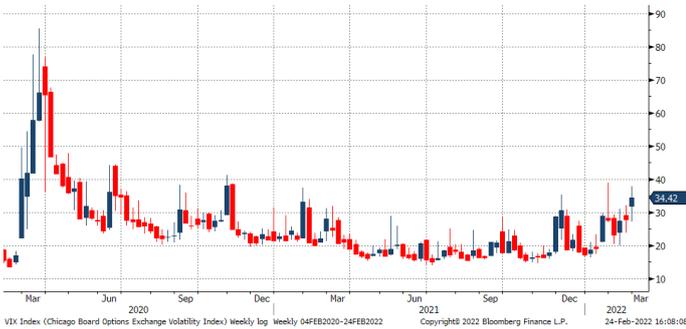
Source. Bloomberg, MAM Research

Chart 3. Nasdaq Composite Index



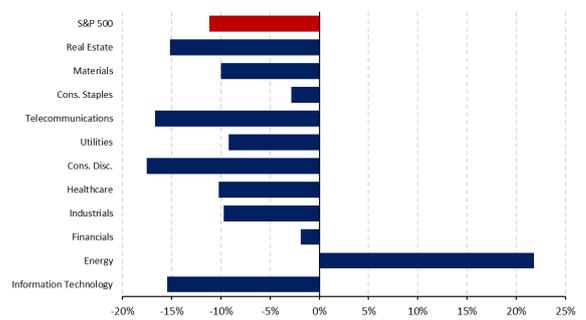
Source. Bloomberg, MAM Research

Chart 4. VIX Index



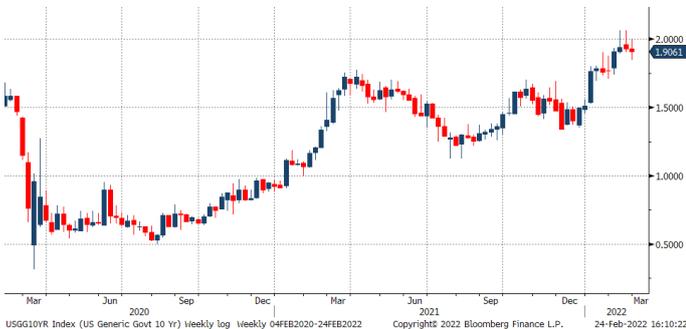
Source. Bloomberg, MAM Research

Chart 5. US Sectors Performance YTD



Source. Bloomberg, MAM Research

Chart 6. US 10-Year Yield



Source. Bloomberg, MAM Research

Chart 7. Gold Spot Price



Source. Bloomberg, MAM Research

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