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# MONTHLY MARKET ROUNDUP

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MAY 2022

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**ALPHA VALUE  
MANAGEMENT**

## ECONOMIC OVERVIEW

Inflation was once again the trending matter of contention throughout the month of May, with no indication of a let-up in surging prices anywhere in sight. Both Treasury Secretary Janet Yellen and Federal Reserve officials have admitted that they may have painted the wrong picture on inflation – an aspect which tends to punish lower earning workers more harshly than high income earners.

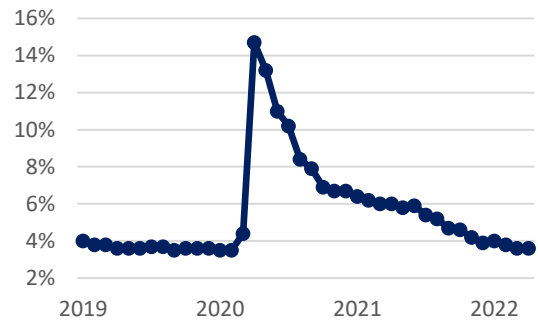
The Producer Price Index for April was up by 0.5% on the month, translating into an 11% increase over the past year. Similarly, the Consumer Price Index accelerated 0.3% in April and 8.3% YoY, more than the 8.1% estimate and edging towards the highest level seen in 40 years, while the PCE Deflator rose by 0.2% in April (6.3% YoY). Owing to the ongoing tension stemming from the Russia-Ukraine war which has kept energy prices elevated, as well as China’s ‘Zero Covid’ policy which has continued to hinder global supply chains, both energy and consumer goods prices are expected to remain on the high side for the near future.

From a labour market perspective, Average Hourly Earnings increased by 0.3% throughout the month, up to an additional 5.5% when taken on a yearly basis, while Unemployment Rate data came in at 3.6%. The latest JOLTS Job Openings survey recorded 11.4 million currently available jobs, signifying a slight drop in comparison to the previous month’s all-time high of 11.9 million. Finally, initial Jobless Claims totalled 208K.

As a result of higher interest rates (leading to higher mortgage rates), the housing market has been plagued by the fundamental mismatch stemming from demand and supply for single family U.S. housing. From an economic data point of view, Housing Starts dropped by -0.2% in April, while Building Permits decreased by -3.2%. Furthermore, New Home Sales shed a staggering -16.6% when compared to the previous month, while Existing and Pending Home Sales fell -2.4% and -3.9%, respectively. To make things worse, on the other end of the spectrum, the S&P CareLogic 20-City Price Index is now at a 21.2% increase compared to a year ago, fuelled by a further 2.42% uptick in April.

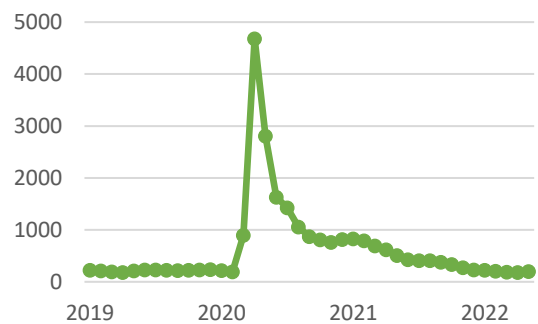
The Federal Reserve is due to meet again on the 15th of June, and the market widely expect that another 50 basis point rate hike, alongside the announcement of the beginning of a reduction in balance sheet is set to come into play. As a result, these actions are predicted to put further upward pressure on Treasury yields.

### UNEMPLOYMENT RATE



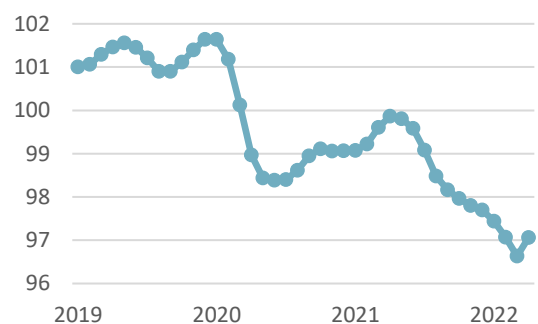
Source: Bureau of Labour Statistics

### 4-WEEK MOVING AVG. OF INITIAL CLAIMS ('000)



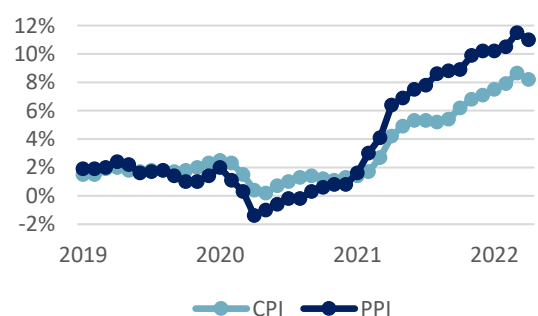
Source: Federal Reserve Economic Data

### CONSUMER CONFIDENCE



Source: Organisation for Economic Co-Operation and Development

### PPI & CPI YOY % CHANGE



Source: Bureau of Labour Statistics

## GLOBAL EQUITY

U.S. equities were subject to a significant amount of volatility throughout the month of May, albeit ending in positive territory. The S&P 500 was down by as much as -5% intra-month, before rebounding sharply to a 9% gain, and finally settling for a 0.18% increase to close at 4,132. The S&P 400 Mid Cap and S&P 600 Small Cap indices both fared better than did the broader S&P 500, recording monthly gains of 0.75% and 1.86%, respectively. This echoes the scenario on a year-to-date basis, in which SMID Caps have outperformed Large Caps, primarily due to their lesser exposure to Technology and Growth oriented equities.

When comparing styles, Value remain the clear winner, with the S&P 500 Value Index posting a 1.64% gain on the month and -3.46% for the year. On the other hand, the S&P 500 Growth Index lost -1.36 MoM, and -21.09% YTD, a staggering 17.63% difference when compared to Value. This comes as no surprise, given the increasing interest rates and the negative effect they have had on Technology and Mega Cap Growth equities.

The distinction between Value and Growth returns becomes even clearer when taken on a sector level. Energy, Utilities and Financials outperformed the rest of the sectors throughout May, returning 15.77%, 4.32% and 2.73%, respectively, while Real Estate, Consumer Discretionary and the Consumer Staples sector were the worst performing, respectively losing -5.02%, -4.85% and -4.61% MoM. Energy remains the dominant sector in 2022 so far, up by an astounding 58.43%, while the Consumer Discretionary sector (-24.69%) followed closely by Communication Services (-24.35%) have been the worst performing, largely due to their exposure to Mega Caps.

On the International front, both Developed Markets (DM) and Emerging Markets (EM) returned positive gains, despite a number of headwinds. The MSCI EAFE Index, which represents DM, was the top performer of the two and rose 0.88%, while the MSCI EM inched higher by 0.46%. Towards the end of the month, EM equity rose sharply on the back of the news that China would begin easing its restrictions after a near two month-long lockdown (Chinese equities account for approximately 1/3 of the MSCI EM Index). However, the Chinese economy is yet to emerge from its slowdown, as 2022 is set to witness the first time in decades where the Chinese economy grows at a slower pace than that of the U.S., placing ominous pressure on President Xi to find alternative ways in which to stimulate growth.

In Europe, the ECB announced that it intends to raise benchmark interest rates in September - a significant milestone which will see the continent emerge from its negative interest rate policy. Meanwhile, in the U.K. consumption remains diminished as higher energy prices and persistent inflation continue to weight on the economy. On the other end of the spectrum, The Bank of Japan remains committed towards its efforts at controlling its yield curve, a policy which sees the BoJ purchase unlimited amounts of Japanese Government bonds, in turn placing significant pressure on the Yen versus the Dollar as interest differentials remain diverged.

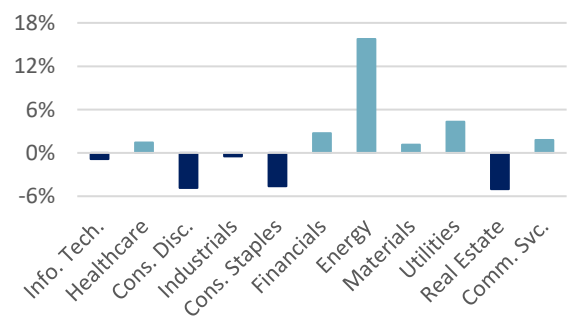
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### EQUITY RETURNS

Name	MTD	YTD	1 Year	3 Year	5 Year
S&P 500 Index	0.18%	-12.76%	-0.32%	16.40%	13.36%
S&P 400 Mid Cap Index	0.72%	-11.01%	-6.57%	13.23%	9.53%
S&P 600 Small Cap Index	1.85%	-11.39%	-8.80%	13.15%	9.72%
S&P 500 Growth Index	-1.35%	-21.09%	-3.69%	17.19%	15.33%
S&P 500 Value Index	1.63%	-3.47%	2.43%	14.26%	10.45%
MSCI EMU Index (EUR)	0.98%	-9.86%	-3.18%	7.87%	4.54%
MSCI EAFE Index (USD)	0.88%	-10.99%	-9.81%	7.02%	4.77%
MSCI EM Index (USD)	0.46%	-11.72%	-19.59%	5.33%	4.15%

Source: Bloomberg

### MTD S&P 500 SECTOR RETURNS



Source: Bloomberg

## FIXED INCOME

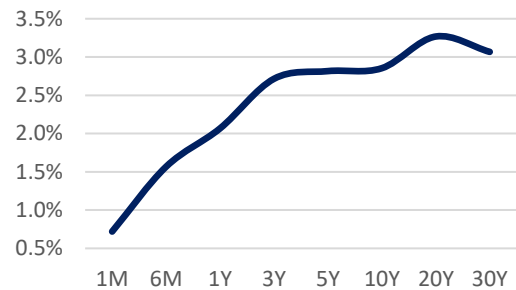
U.S. Federal Reserve minutes suggested a softer tone on inflation. The minutes from the Federal Open Market Committee for May provided some assurance to markets, with some members stating that inflationary pressures "may no longer be worsening". While the possibility of a 50bps interest rate hike at the next two policy meetings were backed by the majority of members, a 75bps hike was not considered. However, Fed Chairman Jerome Powell maintained that inflation was still "much too high".

Bond markets diverged over the month. U.S. fixed income markets found support following the fierce rise in yields over recent months. Treasury yields were fairly choppy but ultimately range bound. Federal Reserve rhetoric remained hawkish, but against this risk sentiment soured, benefiting safer assets. Chairman Jerome Powell stated said that policymakers will "keep pushing" until inflation falls convincingly, while adding that this may require the central bank to move "more aggressively".

Yields in Europe and the U.K. rose further, with concerns over inflation and interest rate rises remaining in force. The U.S. 10-year Treasury yield fell from 2.94% to 2.85% and the 2-year from 2.73% to 2.56%. In Europe, the German 10-year yield rose from 0.94% to 1.13%. European Central Bank President Christine Lagarde once again indicated readiness to begin raising interest rates in July. The UK 10-year yield rose from 1.91% to 2.10% though the 2-year yield was down from 1.61% to 1.58%.

Corporate bond markets diverged too. U.S. investment grade bonds saw a positive total return, ahead of Treasuries, while European investment grade bonds declined and underperformed government bonds. High yield underperformed government bonds as spreads widened. The U.S. saw a small positive total return, while Europe declined.

### TREASURY YIELD CURVE



Source: Bloomberg

### CENTRAL BANK ACTIVITY

Name	Current	1 Month Prior	6 Months Prior	1 Year Prior
Fed Funds Rate	1.00%	0.50%	0.25%	0.25%
ECB Rate	0.00%	0.00%	0.00%	0.00%
BoE Rate	1.00%	0.75%	0.10%	0.10%
BoJ Rate	-0.10%	-0.10%	-0.10%	-0.10%

Source: Bloomberg

### U.S. TREASURY YIELDS

Period	3-Month	2-Year	5-Year	10-Year
Current	1.04%	2.55%	2.82%	2.85%
1 Month Prior	0.83%	2.72%	2.94%	2.90%
6 Months Prior	0.05%	0.55%	1.15%	1.44%
1 Year Prior	0.04%	0.25%	0.88%	1.45%

Source: Bloomberg

### FIXED INCOME RETURNS

Name	MTD	YTD	1-Year	3-Year	5-Year
Bloomberg Barclays U.S. Government Index	0.19%	-8.24%	-7.45%	-0.25%	0.91%
Bloomberg Barclays U.S. Corporate Index	0.93%	-4.59%	-10.28%	0.76%	1.92%
Bloomberg Barclays U.S. Corporate High-Yield Index	0.25%	-8.00%	-5.27%	3.33%	3.56%
Bloomberg Barclays U.S. Agg Index	0.64%	-8.92%	-8.22%	0.00%	1.17%
Bloomberg Barclays Global Agg Treasuries USD Index	-0.54%	-7.03%	-6.50%	-0.41%	1.33%
Bloomberg Barclays EM USD Agg Index	-0.02%	-13.17%	-13.48%	-1.14%	0.61%
Bloomberg Barclays Municipal Index	1.49%	-7.47%	-6.79%	0.50%	1.78%

Source: Bloomberg



## ALTERNATIVE INVESTMENTS

The Russian-Ukrainian war continues to dominate the macroeconomic scenario due to the blockage of agricultural raw materials and other metals crucial to the industrial sector. Furthermore, the sanctions against Russia have been tightened in an attempt to weaken the possibility of the government headed by Putin to finance the ongoing conflict.

These sanctions have mainly affected crude oil exports, while gas supply decisions are yet to be made. However, the phasing out of Russian oil will take from 6 months for crude oil, to 8 months for other refined petroleum products.

Naturally, the effects on commodity prices did not take long to come into play. The most significant increases centred around the energy sector. The West Texas Intermediate (WTI) barrel recorded an appreciation of 10.09%, moving from \$104.69 to \$115.26. The North Sea Brent rise (12.29%) was also significant, increasing from \$109.34 to \$122.84. Natural gas was on par with crude oil (increase of 12.43%), which now costs \$8.145, albeit a slowdown from the 28% rally experienced in April.

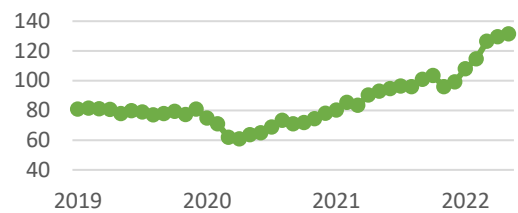
In terms of gold, the safe haven asset recorded a decline of -2.68%, to \$1,845.97 – a small adjustment when compared to the price of \$1,896.93 recorded at the end of April, in part due to a slightly more accommodating dovish view on the trend of inflationary dynamics.

Will it be enough to cool the ardour of the FED (Bullard) and ECB (Nagel) hawks? Much will depend on U.S. inflation data that will be released on June 10th, just 4 days before the next Fed meeting (June 14-15).

Soybeans declined slightly by -1.46%, settling at \$1,683 compared to the previous month's price of \$1,780 – largely due to seasonality and the fact that sowing is still in progress.

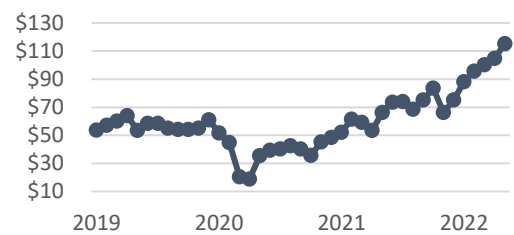
In general, the sector, represented by Bloomberg Commodity Index, grew to 131.34, reporting a 1.50% month-on-month increase which could possibly confirm a slowdown (or a simple break) of the ongoing uptrend.

### BLOOMBERG COMMODITY INDEX



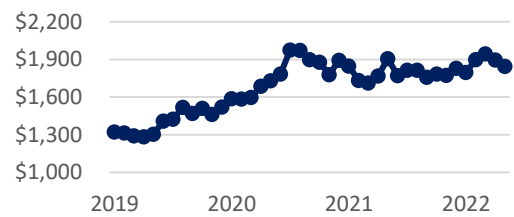
Source: Bloomberg

### WTI CRUDE OIL SPOT



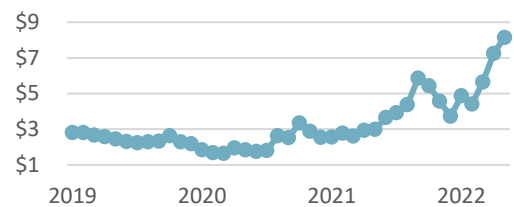
Source: Bloomberg

### GOLD SPOT



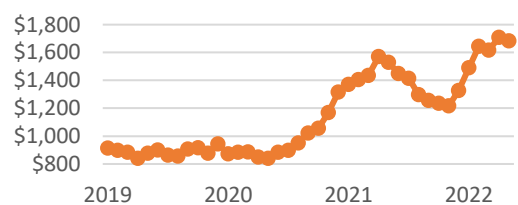
Source: Bloomberg

### NATURAL GAS



Source: Bloomberg

### SOYBEAN



Source: Bloomberg

### SPOT RATES

Description	Current	1 Month Prior	3 Months Prior	6 Months Prior	1 Year Prior
EUR / USD	1.07	1.05	1.12	1.13	1.18
EUR / GBP	0.85	0.84	0.84	0.85	0.86
USD / JPY	128.55	129.70	115.11	113.11	111.09
GBP / USD	1.26	1.26	1.34	1.33	1.38
USD / CHF	0.96	0.97	0.92	0.92	0.93
AUD / USD	0.72	0.71	0.72	0.71	0.75

Source: Bloomberg

## DEFINITIONS

**Consumer Price Index (CPI)** – The price of a weighted average market basket of consumer goods and services purchased by households.

**Producer Price Index (PPI)** – Measures the average change over time in the selling prices received by domestic producers for their output.

**Personal Consumption Expenditure Price Index (PCE Deflator)** – A measure of inflation based on changes in personal consumption.

**S&P CoreLogic CS 20-City Home Price Index** – An index which seeks to measure the value of residential real estate in 20 major U.S. metropolitan areas.

**S&P 500 Index** – A stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States.

**S&P 400 Mid Cap Index** – A stock market index from S&P Dow Jones Indices which serves as a barometer for the U.S. mid-cap equities sector.

**S&P 600 Small Cap Index** – A stock market index which covers roughly the small-cap range of U.S. stocks.

**S&P 500 Growth Index** – A stock market capitalisation-weighted index in which all stocks in the underlying parent index are allocated into growth or value.

**S&P 500 Value Index** – A stock market capitalisation-weighted index in which all stocks in the underlying parent index are allocated into growth or value.

**MSCI European Economic and Monetary Union (EMU) Index** – A stock market index which captures large and mid cap representation across the 10 Developed Markets countries in the EMU.

**MSCI Europe, Australasia, and the Far East (EAFE) Index** – A stock market index which reflects the performance of mid and large cap stocks across 21 developed market countries.

**MSCI Emerging Markets (EM) Index** – A stock market index which is designed to track the financial performance of key companies in fast-growing nations.

**Bloomberg Barclays U.S. Government Index** – An index comprised of the U.S. Treasury and U.S. Agency Indices.

**Bloomberg Barclays U.S. Corporate Index** – An index which measures the investment-grade, fixed-rate corporate bond market.

**Bloomberg Barclays U.S. Corporate High-Yield Index** – An index which measures the high yield, below investment-grade, fixed-rate corporate bond market.

**Bloomberg Barclays U.S. Agg Index** – A broad-based index which measures the investment-grade, fixed-rate bond market.

**Bloomberg Barclays Global Agg Treasuries USD Index** – An index which measures fixed-rate, government debt of investment-grade countries.

**Bloomberg Barclays Emerging Market (EM) USD Agg Index** – A debt-based index which tracks USD-denominated debt from sovereign, quasi-sovereign and corporate EM issuers.

**Bloomberg Barclays Municipal Index** – An index which tracks municipal bonds.

**Bloomberg Commodity Index** – A broadly diversified commodity price index.

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