



BLACK OAK

FAMILY OFFICE

Economic & Market review – September 2022

What a brutal month

In September, Financial markets were under pressure worldwide and through most of asset classes. There was nearly nowhere to hide. Central banks have made it clear that they intend to reduce inflation even at the expense of growth. Indeed, the Fed increase its interest rates by 75 basis points on his last September's meeting for the third consecutive time and warned that more big hikes could be ahead if inflation doesn't fall toward its 2% target. In addition, Fed Chairman Jerome Powell's speech was more hawkish than expected. The Fed now forecasts by the end of the year that its key federal funds rate will reach 4,4%. Last, the US economy is resilient with a strong job market. Therefore, the Fed may conclude that the US economy can absorb additional monetary tightening. ECB also increased its interest rate by 75 basis points with more tightening to come with a terminal rate to around 2% at year end.

Over September, global equities showed significantly lower level with a negative monthly performance for the for the S&P 500 of -9,3%, Nasdaq 100: -10,6% and Stoxx Europe 600: -6,6%. Large cap, Technology and Communication stocks suffered heavily as they are the most sensitive to rising interest rate.

Interestingly the earning yield for the S&P500 is below 5% whereas the Yield on US Investment grade is above 5%, therefore the risk premium of the equity market compared to fixed income seems to be high.

On the Fixed Income side, bonds saw sharp swings and spread widening during this month.

The US Yield Curve inversion is now the deepest since 1981. This inversion of -56 basis points (10-year yield – 2-years yield) is higher than we experienced before the dot.com bubble. This yield curve inversion has been predicted a recession over the past 40 years.

Across sectors, Emerging Market debt continue to be penalized by a strong US dollar. Also, rising mortgage rates are already weighting on the housing sector as the average interest rate on the 15 years US home loan rose above 6%.

The dollar index strengthened against this month and EUR reached a level as low as 0,9538. The main event was the GBP currency swing. The "mini budget" has pushed downward the GBP as low as 1,04 versus USD and has created a crisis of confidence in the UK government as the proposed tax cuts would lead to a sharp increase in public debt.

@ Black Oak 2022. All rights reserved.

It shall be kept in mind that the content is provided for informational purposes only and that any product information provided herein is not advanced in consideration of a portfolio of a specific end-client and shall not be regarded as investment advisory service provided by Black Oak.

Black Oak Family Office SA is regulated and recognized in Switzerland by the Swiss Association of Asset Managers (SAAM).