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Global Cross Asset Strategy:

Bonds Tumbling, But Opportunities Remain

Global bonds are set for the worst monthly return they've seen in over 30 years, according to data compiled by Bloomberg, posting a negative 4% return so far in April, with 10 days still to go. Yields are surging as the latest CPI data confirms fears that inflation has yet to peak, while the Fed rhetoric gets increasingly hawkish. While the prospect of some meetings resulting in hikes of 50bps increments was rattling markets just weeks ago, today it is a foregone conclusion that we'll see at least one (at the meeting on May 4), with some Fed officials even floating the idea that 75bps hikes may be on the cards.

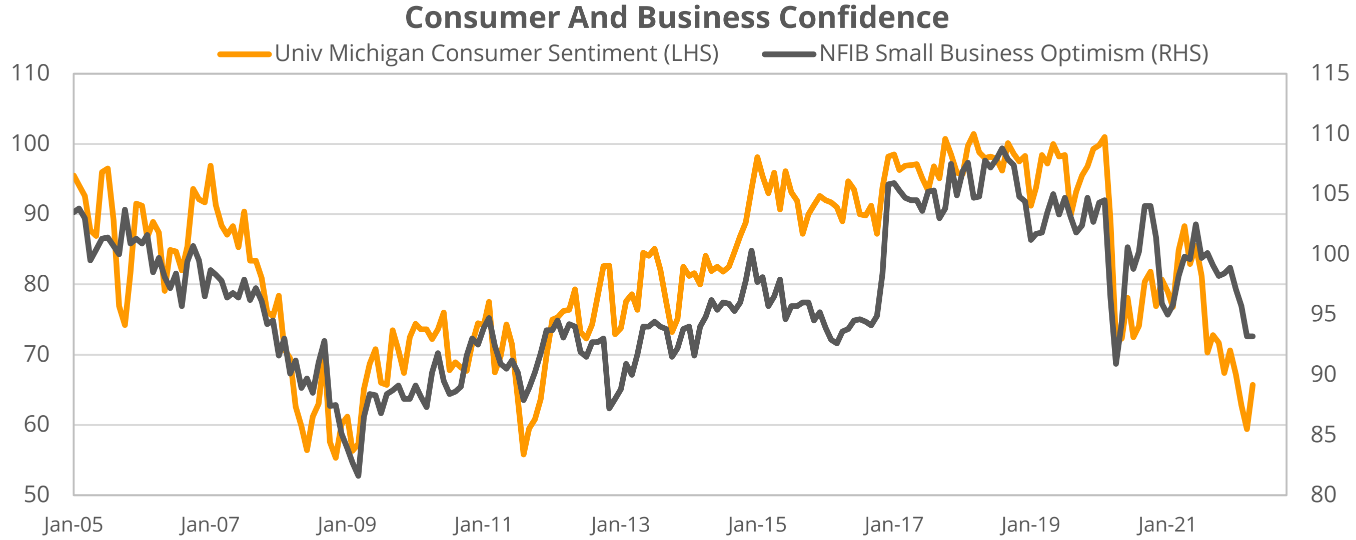
Asset	Spot	Chg In Past 2 Weeks	YTD Change	End- 2022 Target
USG10Y	2.86	+26bps	+135bps	2.75
USG30Y	2.92	+29bps	+102bps	3.25
JGB10Y	0.25	+1bps	+18bps	0.10
DXY	100.34	0.75%	4.88%	98.00
EUR	1.09	-0.37%	-4.52%	1.18
JPY	127.80	-3.14%	-9.96%	115.00
MXN	20.01	0.81%	2.61%	20.50
BRL	4.63	1.97%	20.45%	5.20
SPX	4471	-0.22%	-6.18%	4700
IBOV	114164	-3.44%	8.91%	120000
MEXBOL	53994	-2.61%	1.36%	56000
Brazil 10Y	12.21	+69bps	+142bps	11.75
Mexico 10Y	8.87	+35bps	+132bps	8.50
MXEF	1096	-4.07%	-11.04%	1450
Gold	1952	1.36%	6.69%	1950
WTI Crude	102.6	6.62%	36.42%	110.0

As of 04/20/2022

Aggressive rate hikes, the like of which we haven't seen this century, are coming, and now the question is 1) what has been priced in, 2) where are the market dislocations, and 3) will the Fed be successful in engineering a soft landing, given it is so far behind the curve. On this final point, the Wall Street Journal noted that in its 80 year history, the Fed has never successfully reduced inflation by such a large degree (core inflation is over 400bps above target) without causing a recession.

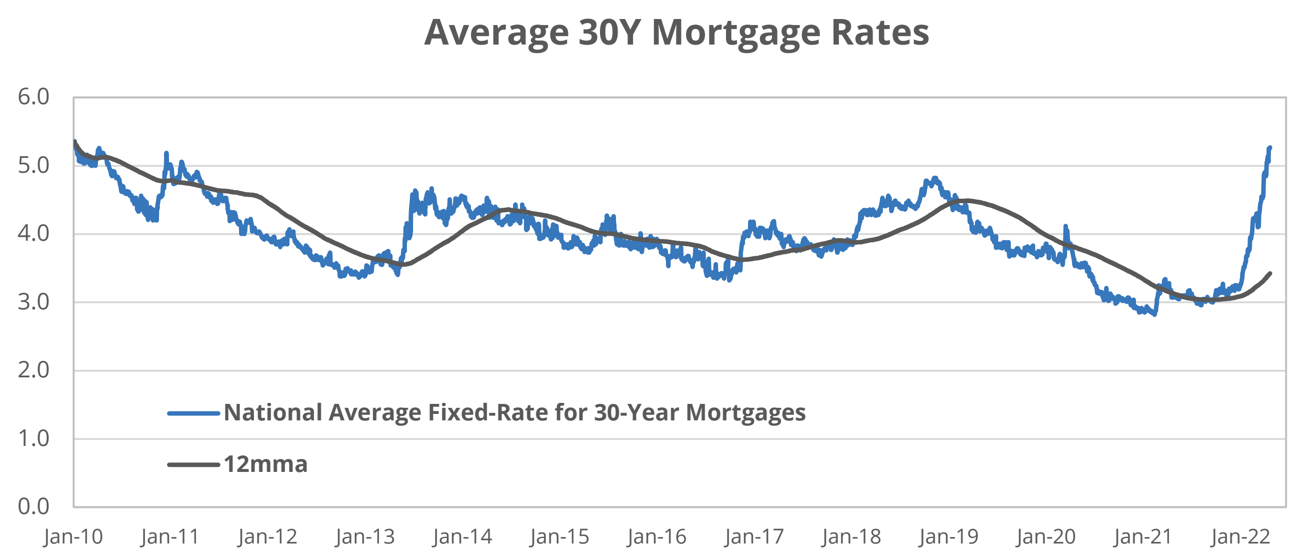
All that being said, the business cycle operates with a lag, and we do not expect a contraction this year. Further, the amount of liquidity in the system, the participation of retail investors, and the tight labor market will support markets to a greater degree…

...than has historically been the case. Wage gains, while lagging headline inflation, are still robust, particularly at the lower-end of the income distribution, where marginal propensity to consume is the highest. Although consumer confidence is at lows not seen in more than a decade, we attribute this largely to concerns about inflation – and rational consumers spend *more,* not less, of their disposable income in an inflationary environment.



Source: Bloomberg, Bulltick

We are also closely monitoring the housing sector, given the sharp increase in mortgage rates. If housing prices take a leg down, consumer perceptions of household wealth could change spending habits, towards less spending and further putting the brakes on the economy. However, for now low home inventories, soaring rental costs, and likely a desire to hedge against inflation more broadly, have all trounced the depressive effects of higher financing costs, such that housing starts, building permits, and existing home sales all beat analyst expectations this week.



Source: Bloomberg, Bulltick

Fixed Income Strategy:

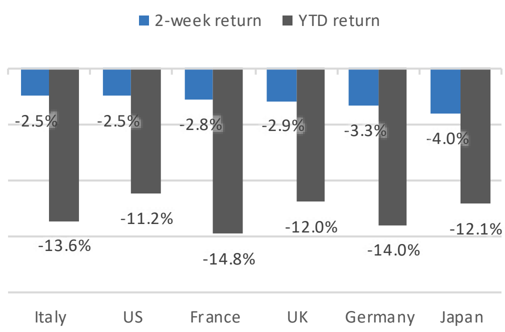
- ***Headline CPI came in at 8.5% y/y, with core inflation at 6.5%,*** well above the Fed's target of 2.00%. Inflation is a top concern for the Biden administration, with approval ratings below 35%, a record low for a president at this point in his first term. The Fed is feeling the pressure to act decisively, not only due to political dynamics but also to preserve its own reputation. The problem, in our view, is that inflationary conditions are likely largely out of the Fed's control. To the degree that inflation was spurred by supply chain issues, energy prices, and high cash holdings (reducing the effectiveness of the transmission mechanism of rate hikes), inflation will persist despite rate hikes.

- ***As a result, we believe that market jitters will likely persist*** and that rates on USTs and spreads for corporate debt will likely edge higher from current levels, despite the fact that much is already priced in.

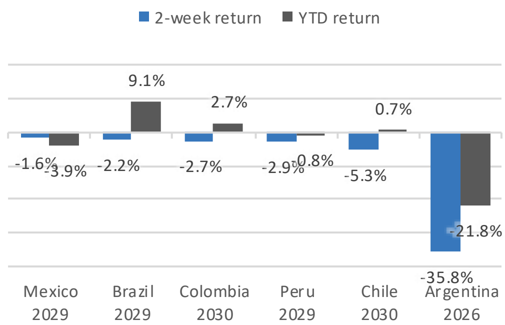
- ***Balance sheet reductions will be drivers of further interest rate impacts,*** and we believe that the 10Y is likely to break 3.00% over the next several weeks. We expect that inflation will eventually come down (owing only partially to Fed action), but only at the end of the year, as supply constraints relax and energy production in the US ramps up.

- ***European bonds face many of the same dynamics,*** although given their closer ties with Russia, the prospect of a sudden downturn in the real economy is more pronounced, in our view. Meanwhile, Japanese bonds will falter due to currency pressures as the JPY slips in sympathy with other safe havens. We are underweight bonds generally, but prefer US over European and Japanese bonds.

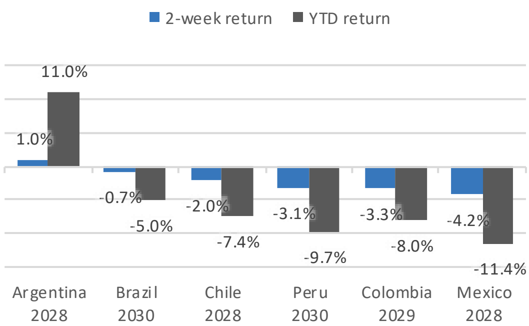
Developed Markets 10Y Total Returns



EM Local Currency Bond Total Returns



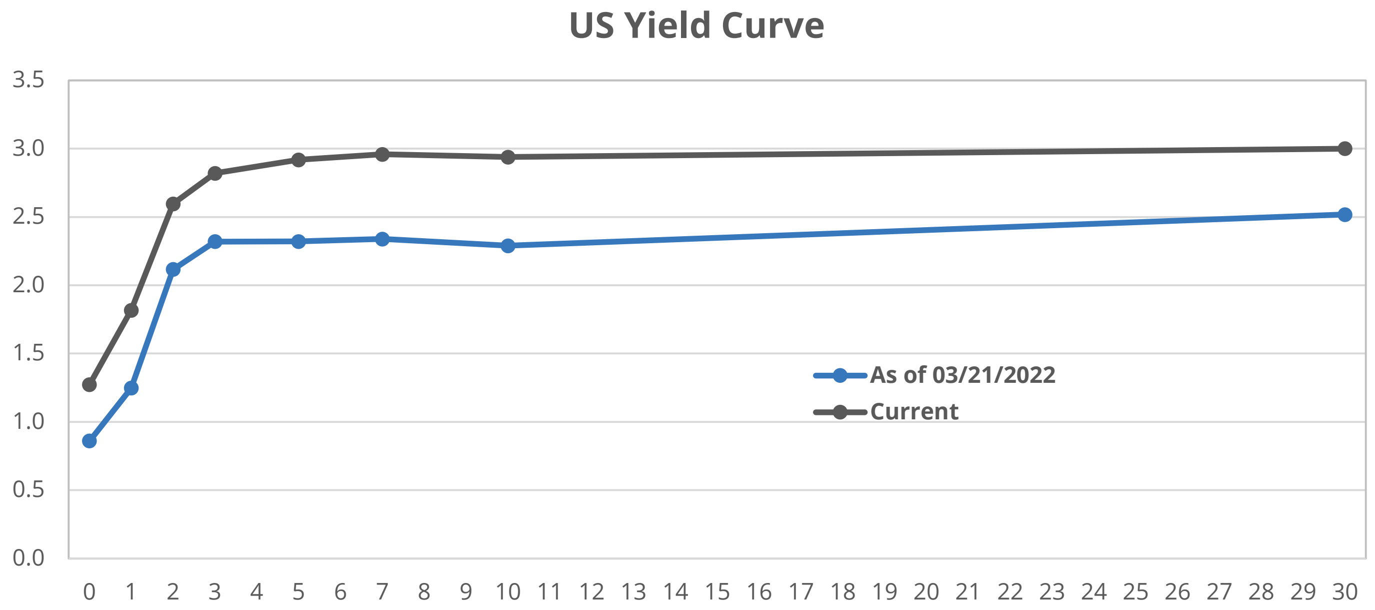
EM USD-Denominated Bond Total Returns



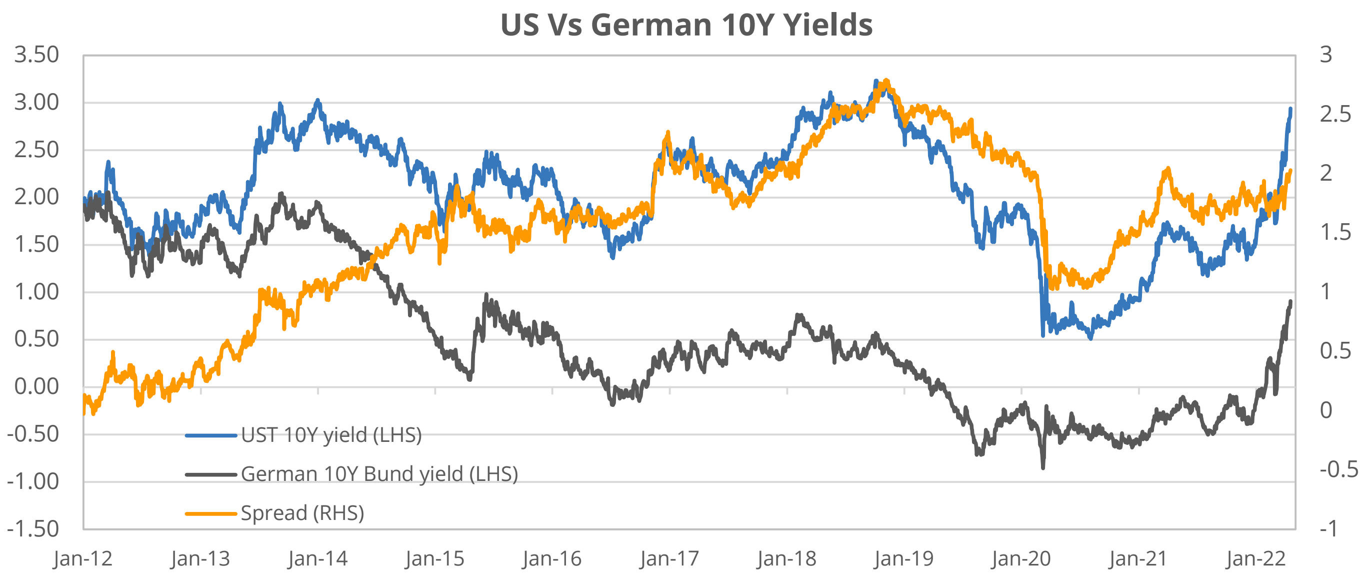
Benchmark Asset	Begin-2022 YTM	Current YTM	YTD Interest Gains, %	YTD Capital Gains, %	YTD Forex Gains, %	Total YTD Return, %	2022 Target YTM	2022 Return, %
UST 10Y	1.51	2.91	0.43%	-11.62%	-	-11.19%	3.00	-11.33%
German 10Y	-0.18	0.87	0.00%	-9.35%	-5.13%	-14.00%	-0.20	4.02%
Japan 10Y	0.07	0.24	0.03%	-1.61%	-10.73%	-12.14%	0.10	-0.14%
Mexico MBONO 2031	7.56	8.91	2.34%	-8.40%	2.28%	-3.92%	8.50	1.72%
Mexico USD, 2031	2.95	4.61	0.83%	-12.27%	-	-11.44%	3.10	1.48%
Brazil BRL 2031	10.84	12.19	3.19%	-3.84%	19.28%	18.50%	11.75	17.14%
Colombia TES 2031	6.34	9.72	2.14%	-19.66%	9.84%	-9.41%	8.00	1.37%
Chile CLP 2032	5.65	6.62	1.78%	-4.96%	3.96%	0.65%	6.00	9.33%
Argentina ARS, 2026	49.55	50.03	11.11%	-5.20%	-9.28%	-3.92%	50.00	-6.05%
Peru Soberano 2031	5.90	7.48	1.97%	-10.16%	8.00%	-0.84%	6.00	8.54%

Source: Bloomberg, Bulltick. All returns are in USD *As of 04/20/2022*

The US Yield curve has shifted upwards, but the inversion risks have abated somewhat, with the 2-30 spread now back above 30bps. We expect continued flatness across most of the curve until inflation fears subside.



Major DM 10Y Bonds have seen sharp increases globally; although the US 10Y yield has spiked sharply (rising 50bps in the past month and 100bps in the past two months) the spreads between US and German bonds have been largely stable. We expect that this spread will start to decline in the months ahead.



Source: Bloomberg, Bulltick

FX Strategy:

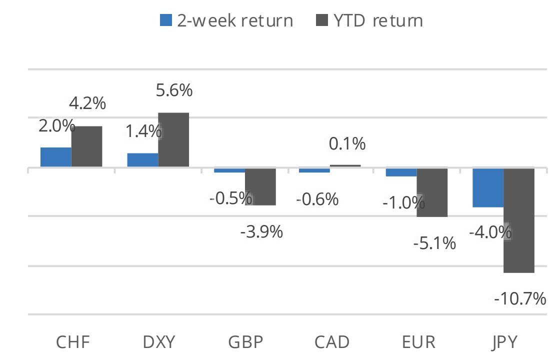
- ***The DXY has broken 98, the result, as usual, of a slip in the value of the EUR,*** and, to a lesser extent, the JPY. EUR weakness is attributable to the prospect of a sharp deterioration in the terms of trade if Europe seeks to source its energy away from Russia and towards less cost-effective avenues, as well as the perception (which Bulltick shares) that the ECB is lagging the already-behind-the-curve Fed in dealing with the global inflation problem. Officials told reporters on Wednesday that a rate rise is possible 'early in the third quarter', which is likely seen as late by most observers.

- ***While the weighting in the DXY of the JPY is lower, the moves have been much larger,*** with the yen slipping 4.0% over the past two weeks and falling by double digits since the beginning of the year. The yen has faltered amid a slipping trade deficit - particularly given its high reliance on foreign sources of energy - as well as the longstanding dynamic in which the yen trades in sympathy with safe-haven assets, such as USTs.

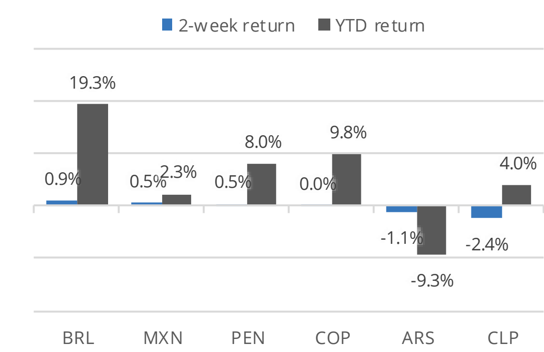
- ***Comparatively speaking, EMFX has been rather quiet*** in recent trading, due in part to the offsetting dynamics of aggressive local central banks and the high price of commodity prices, which has improved the current account dynamics in many countries, particularly in Latin America.

- ***Our to picks coming into this year were the BRL and the COP,*** both of which have firmed by double digits ytd. We calculate that they still have further to run.

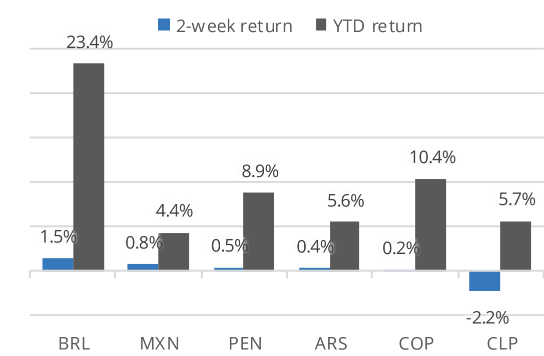
Developed Markets, FX Spot Returns



Emerging Markets, FX Spot Returns



Emerging Markets, FX Carry Returns



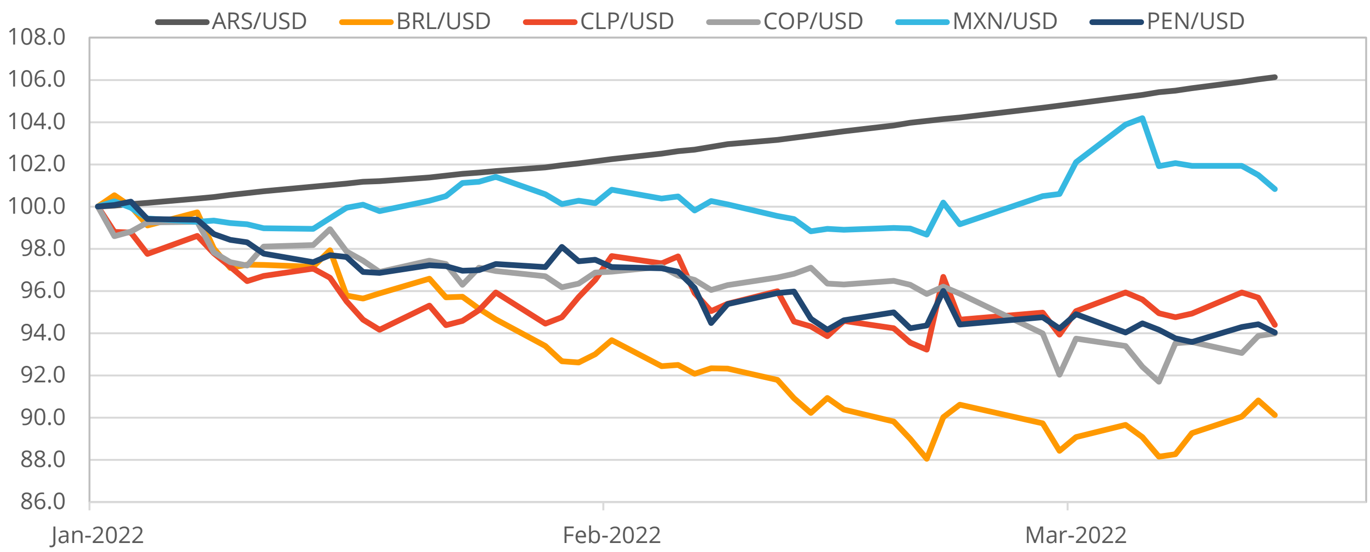
Asset	Begin 2022	Current	YTD Spot Return	YTD Interest Gains	End-2022 Target	2022 Expected Spot Return	2022 Expected Total Return
DXY	95.7	101.0	5.6%	-	95.0	-0.7%	-
USD/EUR	1.14	1.08	-5.1%	-0.15%	1.18	3.8%	3.3%
JPY/USD	115.1	128.9	-10.7%	-0.02%	115.0	0.1%	0.0%
CNY/USD	6.36	6.39	-0.6%	-	6.50	-2.2%	-
MXN/USD	20.52	20.06	2.3%	2.15%	20.50	0.1%	7.6%
BRL/USD	5.57	4.67	19.3%	3.42%	5.20	7.1%	24.1%
COP/USD	4,122	3,752	9.8%	1.66%	3900	5.7%	13.5%
CLP/USD	852.0	819.5	4.0%	1.91%	800.0	6.5%	14.4%
PEN/USD	4.00	3.70	8.0%	1.09%	3.90	2.6%	7.6%
ARS/USD	103.09	113.64	-9.3%	17.17%	140.00	-26.4%	0.5%

Source: Bloomberg, Bulltick. Note: Total returns include 3m deposit (or comparable) interest gains. Carry gains incorporate interest rate differential with US rates. All FX returns are against USD

As of 04/20/2022

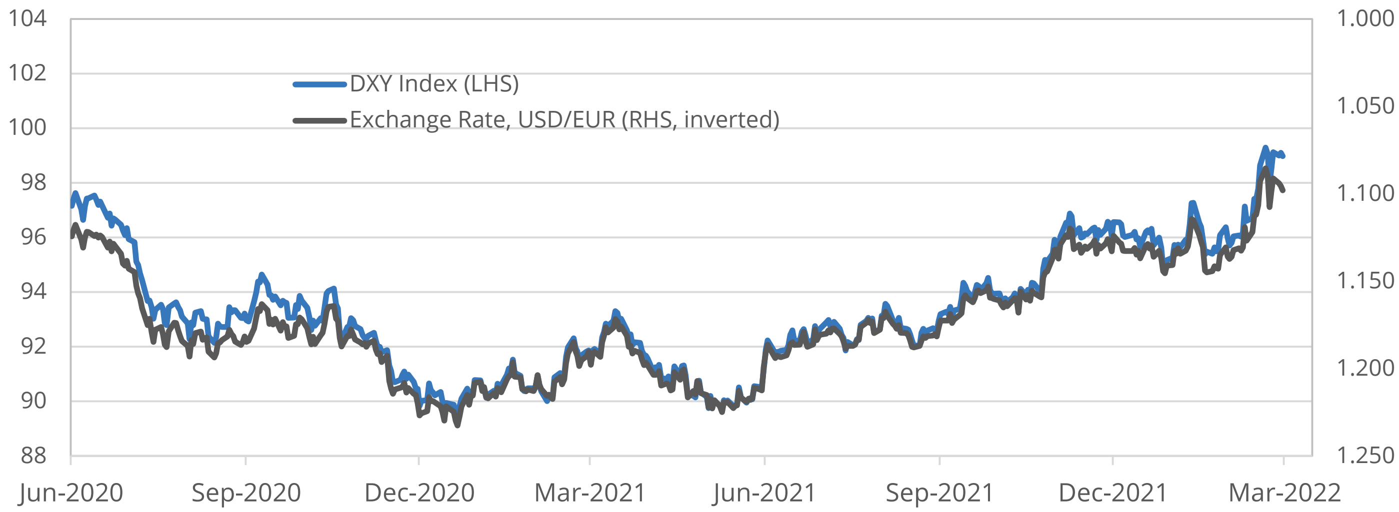
With the sole exceptions of the ARS and the MXN, all major LatAm currencies are up against the dollar ytd, no small feat given much higher UST yields and a general pullback in risk appetite. We attribute the outperformance to strong commodity prices, as well as central bank action which, by global standards, was far more responsive than most.

LCY/USD, YTD Normalized (Up Is Depreciation)



The EUR has slipped, and we believe that is still subject to downside pressures as the conflict in Ukraine, and the associated risks to the continent's terms of trade, remain on center-stage.

Dollar Index/Euro Relationship



Source: Bloomberg

Equities Strategy:

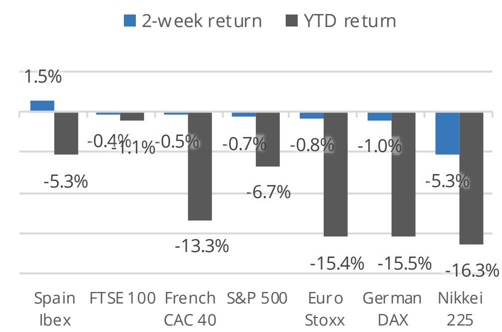
- ***The SPX has seen choppy, but mainly sideways trading*** in recent weeks, as the market reacted to both positive (housing data) and negative (CPI, confidence) readings this week. The market is also contending with much more competitive rates, from an asset allocation perspective, as UST yields climbed, reducing the attractiveness of riskier assets such as stocks. Despite these readings, the principal concern of investors across the markets is Fed action, with indications that an already-hawkish expected rate trajectory is likely to be even more hawkish.

- ***Foreign indices have seen greater headwinds,*** with the conflict in Ukraine heating up, weighing on the risk appetite in Europe, and the JPY slipping sharply, with more pressure ahead amid deteriorating terms of trade, weighing on Japanese stocks.

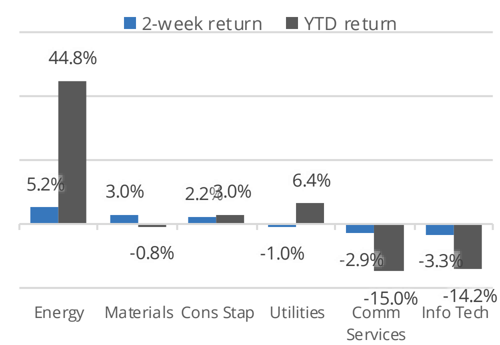
- ***Despite the prospect of higher rates and still-looming inflation, we believe that there remains upside*** for select stocks, thanks to a tight labor market and strong wage growth. Indeed, for those companies that are able to pass along costs to their customers, we expect earnings to be very strong, especially on a nominal basis. We believe that the 'reopening trade', a prominent theme before the latest drawdown, is still operative.

- ***Recession risks are rising, but we expect them to be manifest with a lag,*** such that we retain our exposure to stocks, which we actually prefer over bonds given the rising rate environment. We will be looking to trim this exposure over the longer term if conditions do not improve (or deteriorate) on the inflation/confidence front over the latter part of the year.

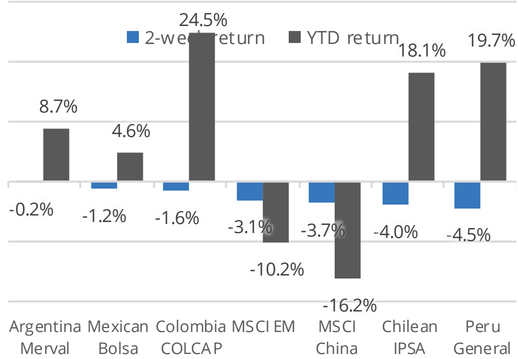
Developed Market Equity Returns



Select S&P 500 Sectors Returns



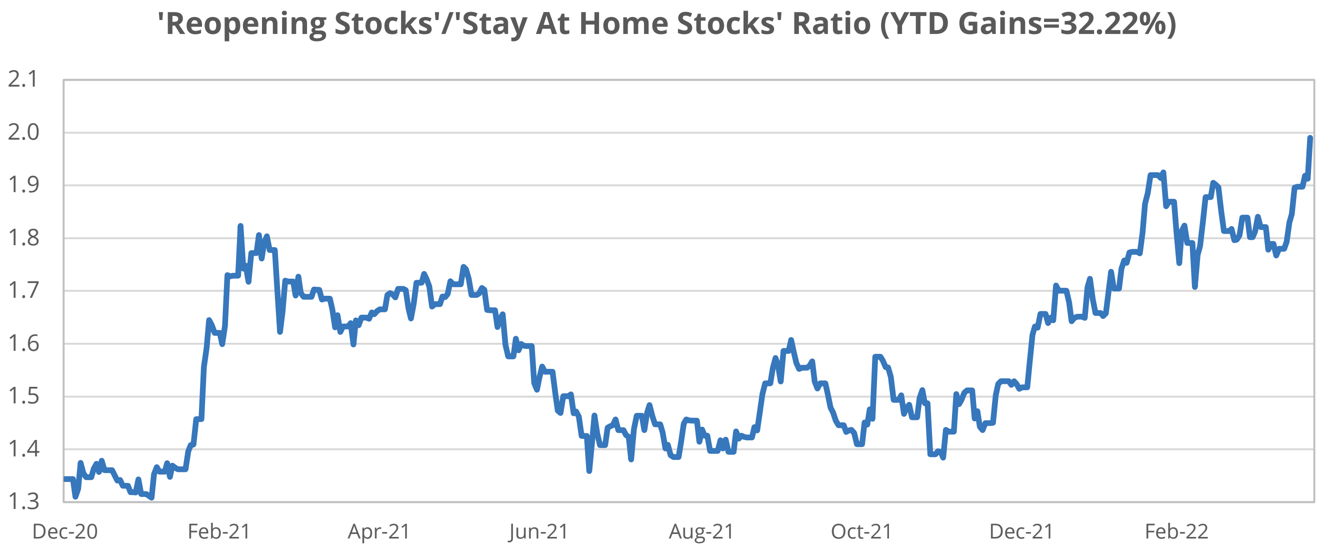
Emerging Market Equity Returns



Asset	Div Yld	Begin 2022 Price	Current Price	Cap Gains (LCY, YTD)	Cap Gains (USD, YTD)	Target 2022	2022 Expected LCY	Total Returns w/Div	USD	w/Div
S&P 500	1.5%	4,766	4,448	-6.7%	-6.7%	4,700	-1.4%	-0.1%	-1.4%	-0.1%
Euro Stoxx	3.4%	4,298	3,831	-10.9%	-15.4%	4,200	-2.3%	0.5%	1.4%	4.3%
German DAX	3.3%	15,885	14,153	-10.9%	-15.5%	15,500	-2.4%	0.2%	1.3%	4.0%
Nikkei 225	2.2%	28,792	26,985	-6.3%	-16.3%	29,500	2.5%	4.3%	2.6%	4.4%
Shanghai Comp	3.2%	3,640	3,194	-12.2%	-12.8%	4,100	12.6%	15.0%	10.1%	12.4%
MSCI India	1.4%	2,037	2,032	-0.2%	-2.7%	2,250	10.5%	11.7%	7.5%	8.7%
MSCI EM	3.1%	1,232	1,107	-10.2%	-10.2%	1,450	17.7%	20.5%	17.7%	20.5%
MSCI World	2.1%	755	689	-8.8%	-8.8%	775	2.7%	4.5%	2.7%	4.5%
Mexican Bolsa	3.4%	53,272	54,482	2.3%	4.6%	56,000	5.1%	7.9%	5.2%	8.0%
Brazilian Bovespa	7.3%	104,822	114,568	9.3%	30.4%	120,000	14.5%	22.1%	22.6%	30.8%
Colombia COLCAP	5.2%	1,411	1,599	13.4%	24.5%	1,400	-0.8%	2.6%	4.9%	8.5%

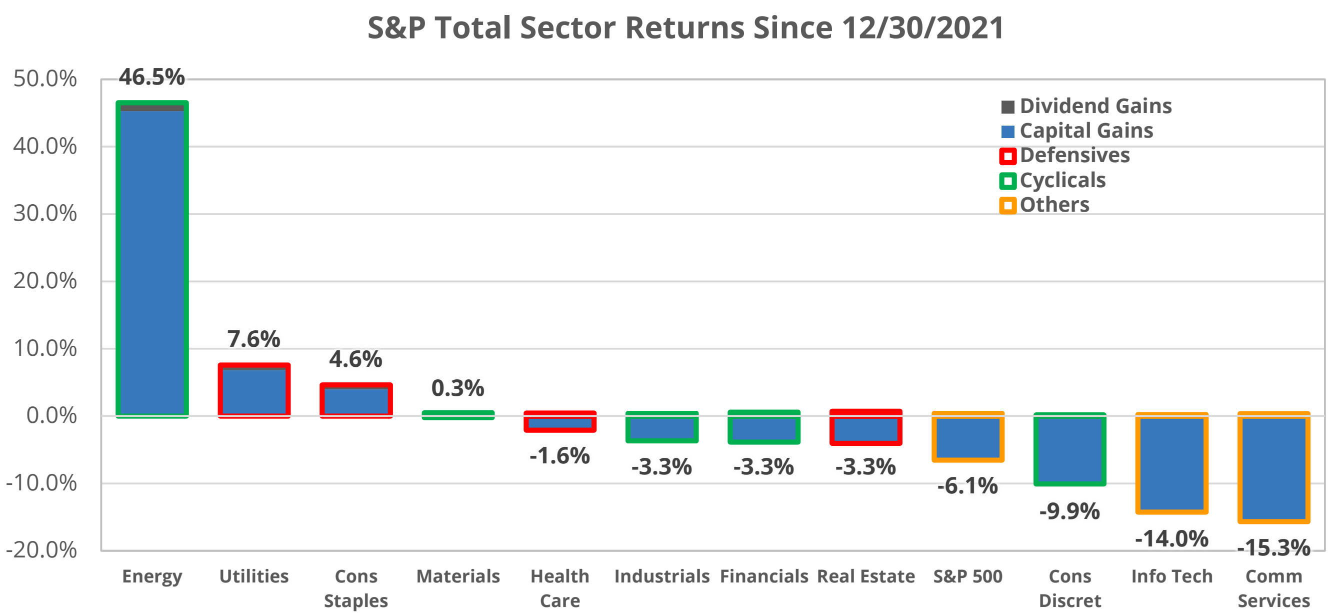
Source: Bloomberg, Bulltick. Chart returns are in USD, excluding dividends *As of 04/20/2022*

Stocks which are most associated with the COVID trade, including stay-at-home names like Zoom, Uber (parent company of Ubereats), video gaming companies, streaming services, etc, are struggling in the reopening trade. Indeed, shorting these names and going long the 'reopeners', including airlines cruise operators, hotels, etc', has yielded a return of 32.2% ytd, extremely impressive given the decline of about 6.0% ytd.



Source: Bloomberg, Bulltick

From a sector perspective, the S&P 500's poor showing in 2022 has largely been due to the anchor of tech, which accounts for nearly a quarter of the index by weight. Insofar as this sector is valued using a discounted-rate growth model based on UST yields, we expect it to remain under pressure. However, other sectors, such as Healthcare, Energy, and consumer staples, should perform well in an inflationary environment given their inelasticity of demand.



Alternative Investments

① ***WTI oil is up by more than 36% ytd,*** building on the gains already seen at the end of last year, and is currently trading just over US$100/bbl. While this is down from the highs seen at the outset of the conflict in Ukraine, volatility remains extremely high, and we believe that there are 'fat tails' to the probability distribution of future prices over the near term. While strong demand for travel will add upside pressures, we expect that over the course of the year production, particularly in the US, will rise sufficiently to mitigate upside over the medium term.

② ***Industrial metal prices are also up,*** the result of an uptick in global demand still waking up from the COVID recession, as well as the general weakness in the US dollar. While there has been strong performance across the space, the clear outperformer is nickel, another casualty of the Russia/Ukraine conflict, as Russia is a major supplier of the metal. On the demand side, nickel is needed for the ever-expanding markets of EV batteries, and we expect that prices will trade at these lofty levels at least until some prospect of peace in Europe emerges.

③ ***Bitcoin and other cryptocurrencies have lost some of their favor*** amid this inflationary environment, failing to keep pace with price growth. Nevertheless, they boast low correlations with traditional markets and we maintain our position that a small position is appropriate for most portfolios.

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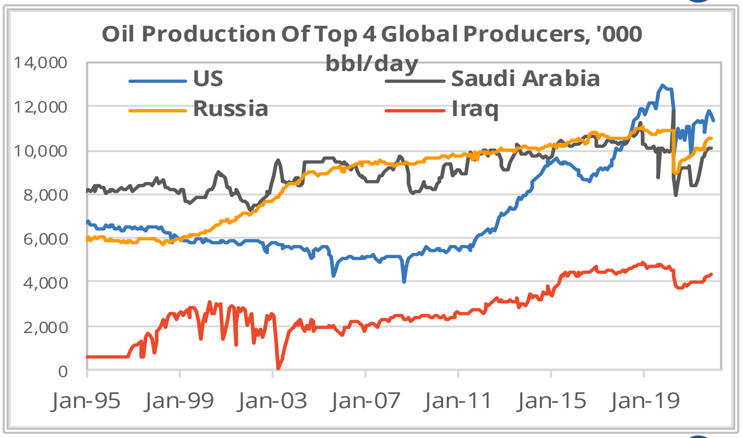

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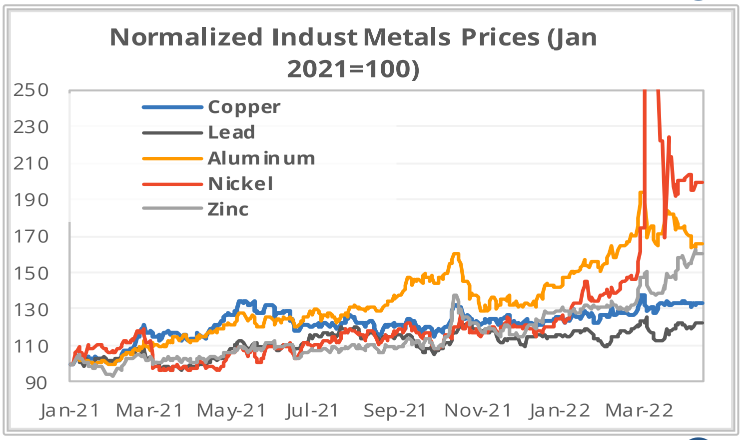

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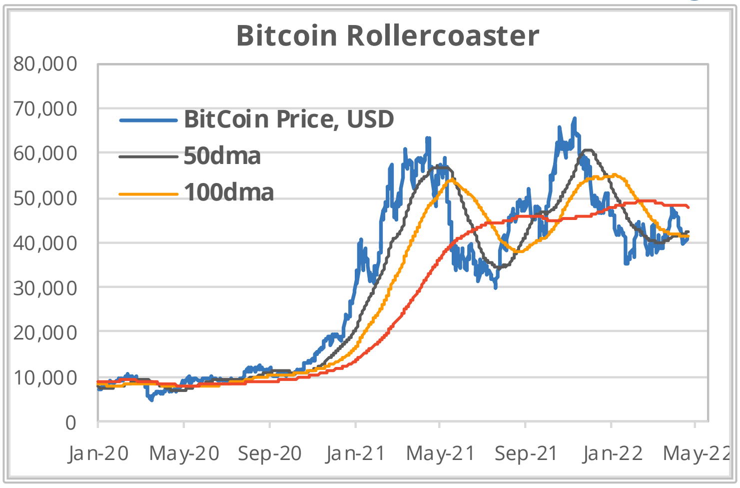

Source: Bloomberg, Bulltick

As of 04/20/2022

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