May 5, 2022

Bulltick Research and Strategy

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Global Cross Asset Strategy:

Expect Fed Hikes and Sticky Inflation Regardless

After risk assets catapulted yesterday, irrationally exuberant over a comment Fed Chair Powell made effectively discarding the idea of 75bp hikes for the time being, today (as Bulltick Research predicted), markets came crashing back down to earth. (SPX -3.5% with cyclicals the biggest losers today led by Tech -4.8%, Discretionary -5.4%, Financials -3.3%, Comm Services -3.8%, EM, cryptos, across risk assets followed suit. The reality, something the market clearly reconsider post yesterday's fleeting exuberance) is that core PCE inflation is more than 3x target and the Fed has to land a "smooth landing" increasing rates and trimming its balance sheet simultaneously and all into an already-decelerating economy.

Asset	Spot	Chg In Past 2 Weeks	YTD Change	End- 2022 Target
USG10Y	2.94	+11bps	+143bps	2.75
USG30Y	3.03	+16bps	+113bps	3.25
JGB10Y	0.23	-2bps	+16bps	0.10
DXY	102.52	2.12%	7.16%	98.00
EUR	1.06	-2.12%	-6.57%	1.18
JPY	129.14	-0.99%	-10.88%	115.00
MXN	20.02	-0.09%	2.54%	20.50
BRL	4.91	-5.90%	13.43%	5.20
SPX	4300	-3.57%	-9.78%	4700
IBOV	108344	-5.25%	3.36%	120000
MEXBOL	51433	-4.46%	-3.45%	56000
Brazil 10Y	12.31	+17bps	+151bps	11.75
Mexico 10Y	9.09	+27bps	+154bps	8.50
MXEF	1069	-2.41%	-13.21%	1450
Gold	1884	-3.78%	2.99%	1950
WTI Crude	107.7	4.86%	43.25%	110.0

As of 05/04/2022

"Soft landing," defined as when the Fed hikes rates without prompting a recession, is historically complicated with some 80% of tightening cycles followed by economic contraction. Complicating the scenario even more this time around for the Fed, it has to both hike rates and shrink its a near-$9 trillion balance sheet simultaneously and into a decelerating economy to boot. Recession risks are rising. We like defensive sectors within the SPX, gold, cash, alternatives positioning in a diversified portfolio.

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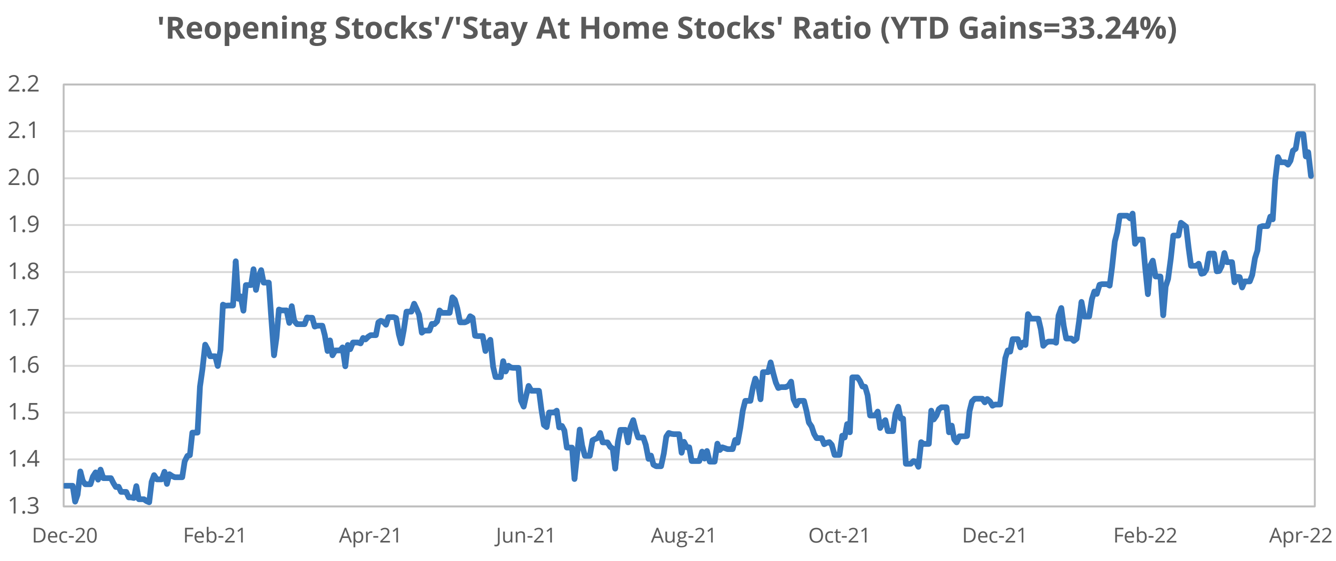
The Fed yesterday raised fed funds by 50bps, the largest hike enacted in over 20 years, but Chair Jay Powell took off the table, at least for now, the potential for 75bps hikes in future meetings. Further, balance sheet reduction will ramp up over time to a targeted US$95bn per month, rather than a shock of immediate reductions of that amount. The market is still digesting whether to give more weight to inflation (which is high and sticky), the labor market (which is extremely tight), or to growth (which will be related to the first two, and we believe is likely to be below-trend).

On balance, we expect that inflation will remain above-target, but as lockdowns ease in China over the latter part of the year, easing supply chain disruptions, price growth will ease. Private consumption will be supported by strong wage gains, but we prefer the less price-sensitive defensive value sectors such as staples, utilities, healthcare, and energy.

We believe that energy should also have an overweight position in most portfolios, due to its positive performance in high-inflation environments, as well as its particular status as a hedge against a sharp deterioration in the conflict in Europe. We expect that rates will continue to climb as the Fed keeps hiking, and particularly over the medium term (the next 3 months or so) we prefer equities over fixed income. Within equities, we also prefer the 'reopening' names versus the 'stay-at-home' names, as we have discussed previously.



Source: Bloomberg, Bulltick

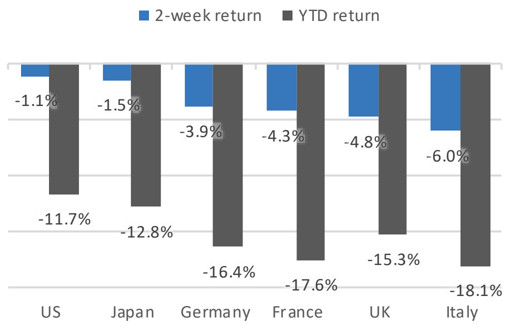
Fixed Income Strategy:

- ***The Fed elected to hike 50bps on May 4th and begin*** balance sheet rolloff starting June 1. The rolloff will rise to a total of $95 billion per month. Fed Chair Jerome Powell discarded the possibility of 75bp increases in fed funds in coming meetings, leading stocks to jump and the yield curve to steepen. The Fed's tools work on demand not on supply shocks. The Fed is concerned with supply chains distortions that could continue to emanate from China and Russia/Ukraine on the supply front. The 10-year Treasury yield nearly broke 3% ex-post the policy decision and moved lower during Powell's press conference. Powell is very concerned on the labor market now, repeatedly citing the fact that there are 2 jobs available for every unemployed persons. He mentioned inflation expectations must remain anchored.

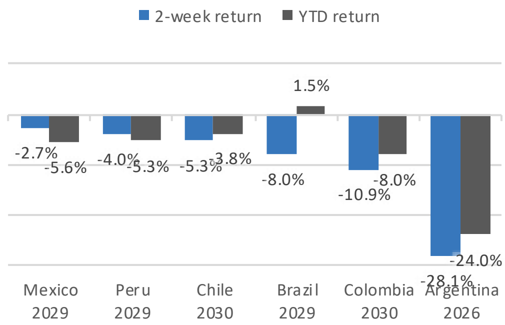
- ***US inflation is currently at 8.5% y/y, with core at 6.5%,*** and we expect these figures to drop to 6.9% and 4.7%, respectively, by year-end 2022. Even if the Fed hikes rates 200-300 even 400bps, those rate hikes will not succeed in driving inflation rates back down towards the 2% target. Food prices, oil prices, high cash holdings (reducing the effectiveness of the transmission mechanism of rate hikes, supply chain distortions causing scarcities, even healthcare, rent - all these inflationary impulses are going to remain hot regardless.

- ***We do see some value in EM Bonds from a tactical*** investment perspective, with energy quasi-sovereigns in Colombia and Brazil yielding 8% and above. We are underweight bonds versus equities generally, but prefer US over European and Japanese bonds and see some value in Latin American corporates and select sovereigns.

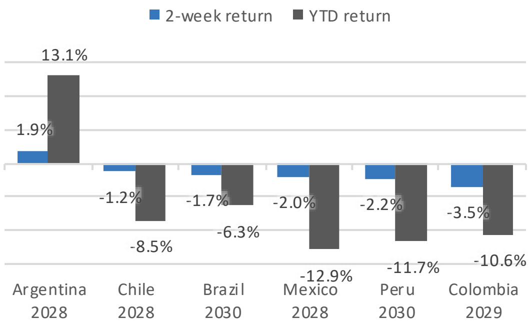
Developed Markets 10Y Total Returns



EM Local Currency Bond Total Returns



EM USD-Denominated Bond Total Returns

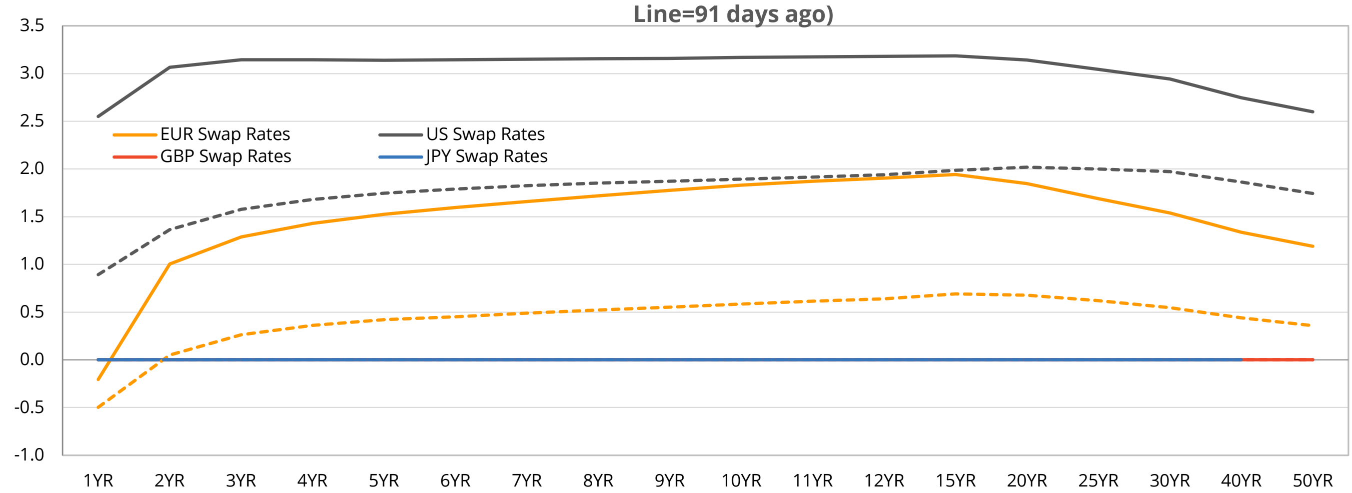


Benchmark Asset	Begin-2022 YTM	Current YTM	YTD Interest Gains, %	YTD Capital Gains, %	YTD Forex Gains, %	Total YTD Return, %	2022 Target YTM	2022 Return, %
UST 10Y	1.51	2.98	0.48%	-12.17%	-	-11.69%	3.00	-11.33%
German 10Y	-0.18	0.93	0.00%	-9.82%	-7.28%	-16.39%	-0.20	4.02%
Japan 10Y	0.07	0.23	0.03%	-1.53%	-11.49%	-12.82%	0.10	-0.14%
Mexico MBONO 2031	7.56	9.11	2.64%	-9.51%	1.37%	-5.59%	8.50	1.72%
Mexico USD, 2031	2.95	4.85	0.94%	-13.84%	-	-12.91%	3.10	1.48%
Brazil BRL 2031	10.84	12.38	3.60%	-4.34%	11.48%	10.65%	11.75	17.14%
Colombia TES 2031	6.34	10.32	2.41%	-22.36%	1.31%	-18.90%	8.00	1.37%
Chile CLP 2032	5.65	6.63	2.00%	-4.80%	-1.00%	-3.76%	6.00	9.33%
Argentina ARS, 2026	49.55	51.96	12.52%	-7.23%	-11.34%	-6.65%	50.00	-6.05%
Peru Soberano 2031	5.90	7.86	2.23%	-12.37%	5.35%	-5.33%	6.00	8.54%

Source: Bloomberg, Bulltick. All returns are in USD *As of 05/04/2022*

The US Yield curve steepened significantly after the FOMC meeting May 4th after Jerome Powell discarded the possibility of 75bp increases in fed funds in coming meetings. In our view, however, this new trend will reverse as the yield curve returns to pricing in a decelerating US economy and a Fed forced to both hike rates and decrease its inordinately large $9 trillion balance sheet at a $95 billion/month pace. The swaps curve also showed a distinct movement for lower fed funds rates that the market had previously discounted.

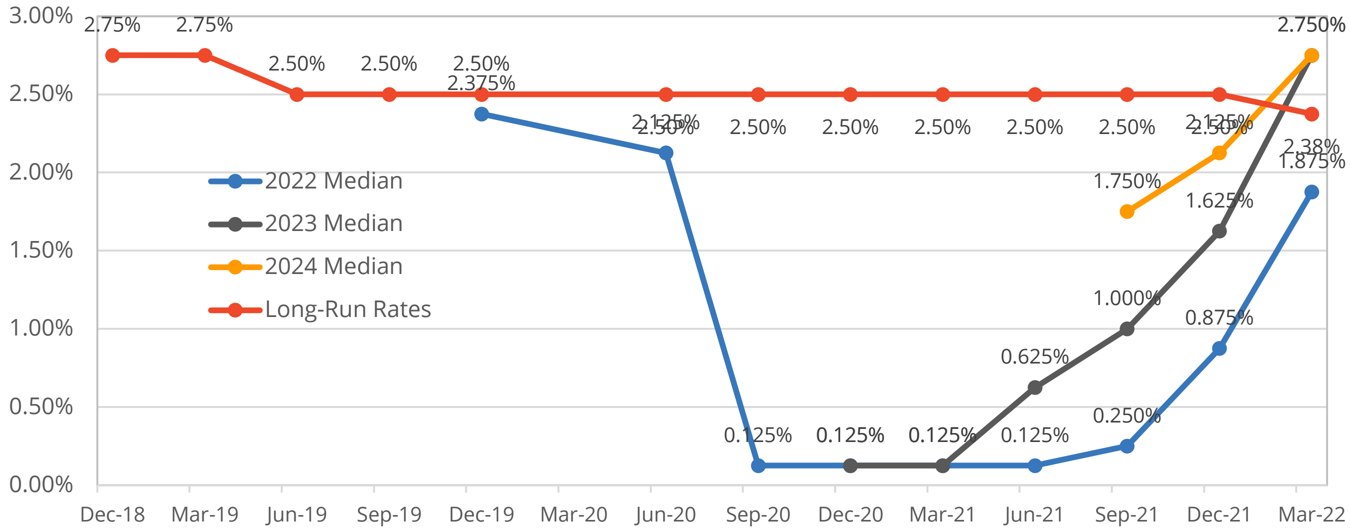
The Future Of US World Central Bank Intervention Rates, According To Swap Market, % (Dotted Line=91 days ago)



Source: Bloomberg

While the Fed has discarded more aggressive hikes of +75bps, it will still continue its course in order to anchor inflation expecatations. We expect the Fed to deliver in line with market expectations of 250bps in total this year. Inflation will start to come down due to base effects and higher rates but remain sticky high at some +4.7% y/y core PCE and nearly 7.0% y/y headline regardless of what the Fed does given that inflationary pressures are not entirely controlled by fed funds.

Median Fed Funds Year-End Targets By Meeting



Source: Bloomberg, Bulltick

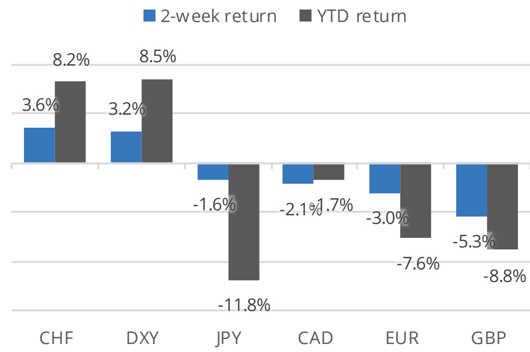
FX Strategy:

- ***The DXY collapsed*** after the Federal Reserve Chairman, Jerome Powell, took 75bp hikes off the table, dropping 1% intraday to 102.5 yesterday before roaring back to make new multi-year highs today, rising to 103.9 (DXY). Europe's central bank has sounded more hawkish of late and is likely to hike rates as soon as June. Regardless, the interest rate differential between the US and Europe will remain wide, keeping appreciation pressure on the USD v. the Euro. Also keeping upside pressure on USD are still-high inflation rates exacerbated by rising commodities prices, meaning despite recent market euphoria to the contrary, the Fed is still going to have to hike rates this year and decrease its balance sheet simultaneously.

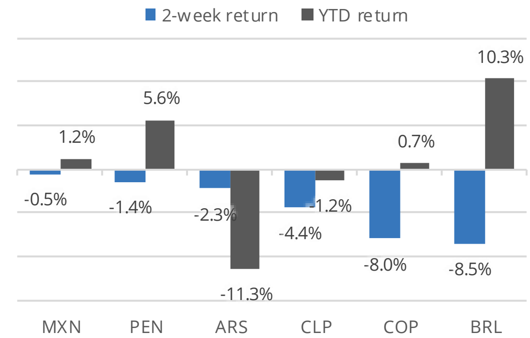
- ***In a volatile ride, the pricing out of more aggressive 75bp hikes took the Dollar lower and EM currencies soaring before reversing the next day***. In the emerging space, we like COP, continuing to see value there as well as in Brazil. The Mexican peso and Brazilian real appreciated strongly during and post-presser. The Brazilian central bank is expected to hike 100 bps later today, and indicate a slower pace of rate hike going forward. The Mexican peso meanwhile is heading back to 20 per dollar.

- ***The yen has fallen aggressively breaking 131 for the first time since 2002.*** A widening trade deficit and its safe-haven status have impacted the currency. Meanwhile, Bank of Japan doubled down on controlling long-dated government bond yields by purchasing unlimited quantities at the 0.25% ceiling.

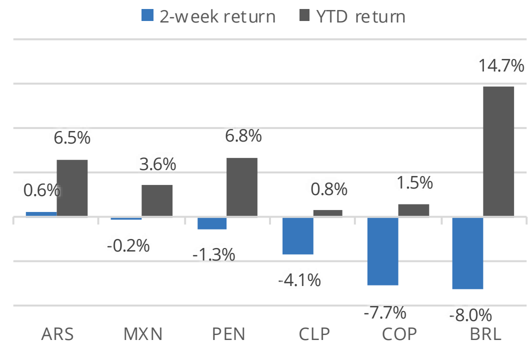
Developed Markets, FX Spot Returns



Emerging Markets, FX Spot Returns



Emerging Markets, FX Carry Returns

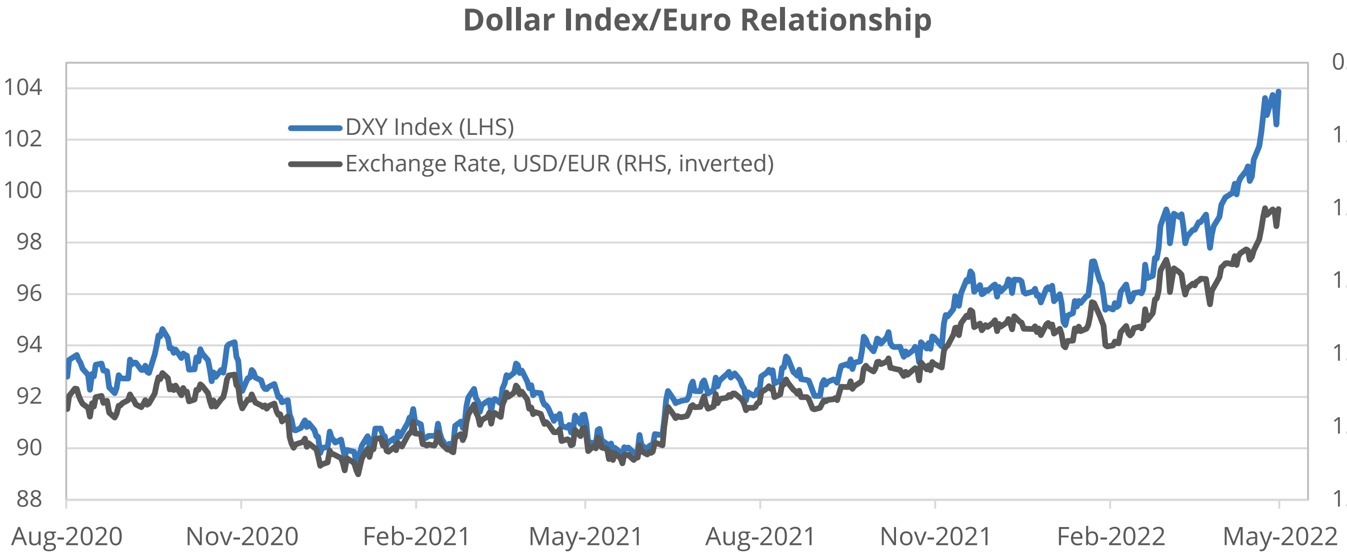


Asset	Begin 2022	Current	YTD Spot Return	YTD Interest Gains	End-2022 Target	2022 Expected Spot Return	2022 Expected Total Return
DXY	95.7	103.8	8.5%	-	95.0	-0.7%	-
USD/EUR	1.14	1.05	-7.6%	-0.17%	1.18	3.8%	3.3%
JPY/USD	115.1	130.5	-11.8%	-0.02%	115.0	0.1%	0.0%
CNY/USD	6.36	6.66	-4.5%	-	6.50	-2.2%	-
MXN/USD	20.52	20.28	1.2%	2.54%	20.50	0.1%	7.7%
BRL/USD	5.57	5.05	10.3%	4.03%	5.20	7.1%	23.8%
COP/USD	4,122	4,093	0.7%	1.99%	3900	5.7%	13.6%
CLP/USD	852.0	862.6	-1.2%	2.30%	800.0	6.5%	14.2%
PEN/USD	4.00	3.79	5.6%	1.33%	3.90	2.6%	8.8%
ARS/USD	103.09	116.28	-11.3%	20.72%	140.00	-26.4%	6.4%

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

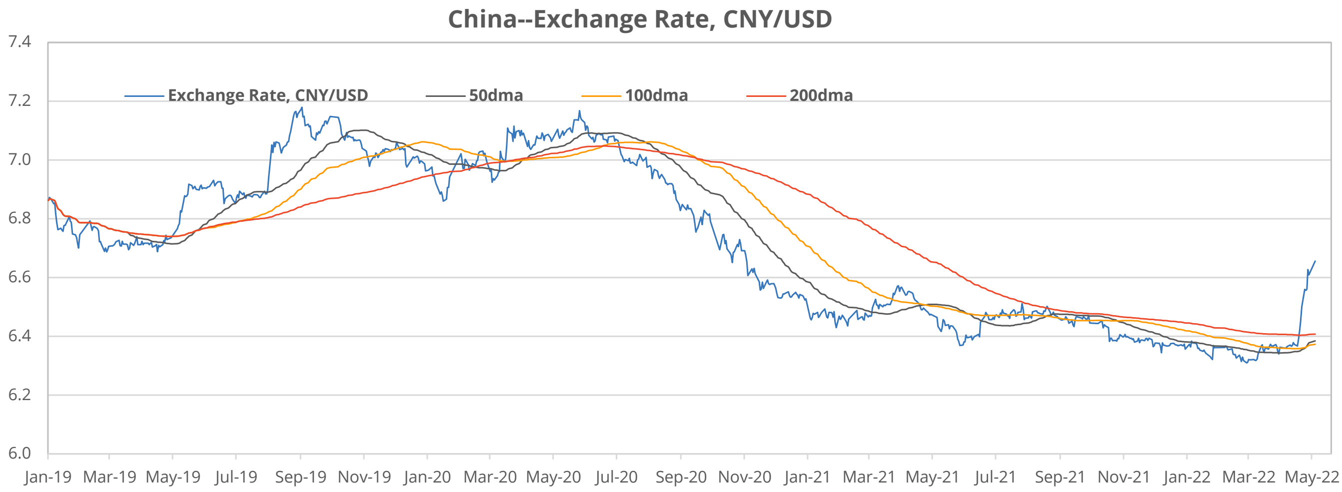
As of 05/05/2022

The ECB appears set to follow the Federal Reserve with near-term rate hikes, which will help close the gap in interest rate differential between the US and Europe. The ECB has already accelerated its unwind from QE, a June rather than July rate hike has not yet been priced into the markets, which are discounting ECB moving in July. How far they go is unclear and we doubt they will match the Fed. However, getting off negative will be the first step in normalizing the European benchmark rate. In April, Europe's inflation hit +7.5%, nearly 4x the ECB's 2% target.



Source: Bloomberg

China's Yuan has weakened dramatically (spot USD/CNY 6.6194) on bad economic data, itself in large part due to the zero Covid policy. The government continues to exercise aggressive lockdowns to avoid the spread of yet another Covid variant resulting in a collapse in consumer spending and weakening economic activity. Services in April posted its weakest level in more than two years. In Bulltick Research we expect stimuli to accompany any continued zero-covid lockdowns that should support the Yuan and assets.



Source: Bloomberg, Bulltick

Equities Strategy:

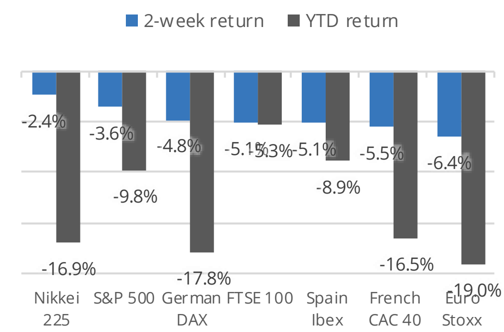
- ***The S&P 500 was up 3.0% Wednesday, the most drastic response to a Fed meeting in five years.*** Although there was a clear sense that officials were taking a more serious stance against inflation than has been the case historically, underscored by the fact that the FOMC hiked by 50bps, the most in over 20 years, the market was braced for more. Notably, the Fed said that its drawdown of its balance sheet would proceed with an incremental increase (up to US$95bn), and Chair Jay Powell believes that a 75bps rate hike is unlikely (although he did not completely rule it out, saying that it was not being actively considered).

- ***Energy stocks again have beat the index by a wide margin,*** reflective of talks in Europe about cutting off the purchase of Russian oil in response to the crisis in Ukraine. We like commodities generally given their historical performance in times of high inflation, and believe that energy stocks in particular serve as a hedge against a market-moving deterioration in the situation in Europe's worst conflict since WWII.

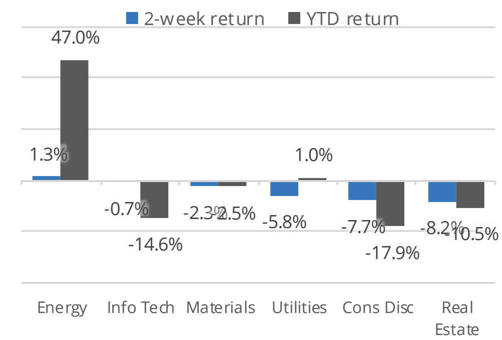
- ***We expect that inflation will prove persistent, and as a result prefer sectors in which companies are better able to pass along higher costs*** to their customers. These include consumer staples, health care, and materials. We believe that rates have a bit further to rise, presenting some headwinds on bond proxies, but utilities should see some resilience given their demand-inelasticity.

- ***Globally, we continue to favor the US over Europe, and within EM, we like LatAm*** given its exposure to commodities and the region's relatively aggressive response to inflationary pressures, which will help protect the value of local currencies.

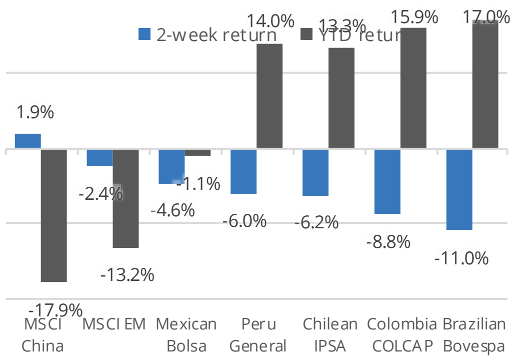
Developed Market Equity Returns



Select S&P 500 Sectors Returns



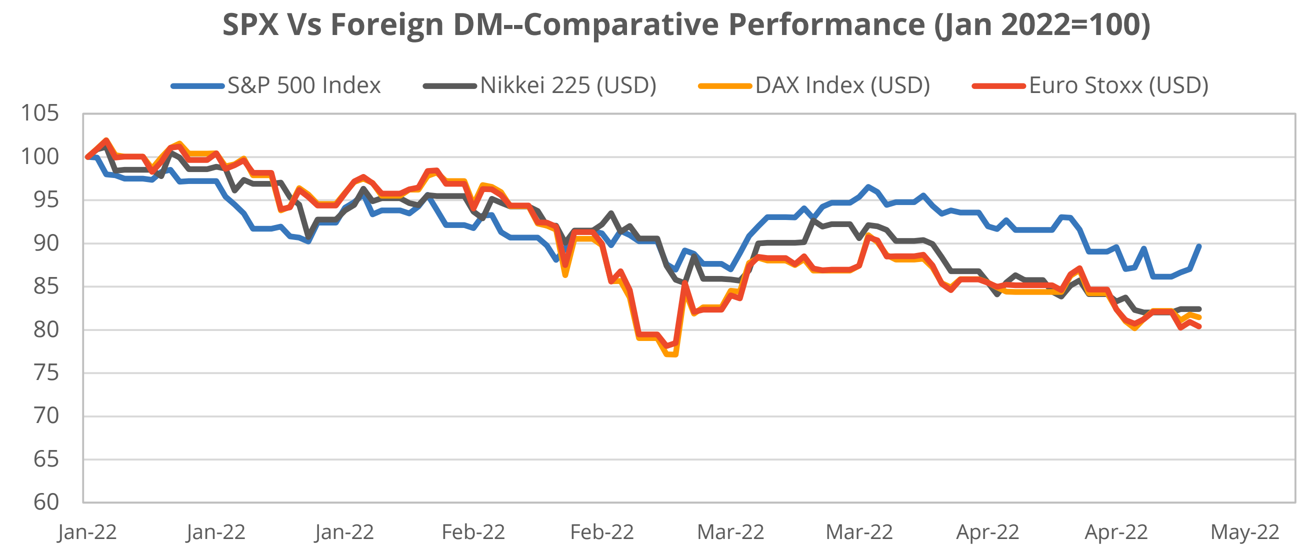
Emerging Market Equity Returns



Asset	Div Yld	Begin 2022 Price	Current Price	Cap Gains (LCY, YTD)	Cap Gains (USD, YTD)	Target 2022	2022 Expected LCY	w/Div	Total Returns USD	w/Div
S&P 500	1.5%	4,766	4,300	-9.8%	-9.8%	4,700	-1.4%	-0.1%	-1.4%	-0.1%
Euro Stoxx	3.5%	4,298	3,725	-13.3%	-19.0%	4,200	-2.3%	0.5%	1.4%	4.3%
German DAX	3.5%	15,885	13,971	-12.0%	-17.8%	15,500	-2.4%	0.2%	1.3%	4.0%
Nikkei 225	2.2%	28,792	26,819	-6.9%	-16.9%	29,500	2.5%	4.3%	2.6%	4.4%
Shanghai Comp	3.3%	3,640	3,047	-16.3%	-19.5%	4,100	12.6%	15.0%	10.1%	12.4%
MSCI India	1.5%	2,037	2,010	-1.3%	-3.2%	2,250	10.5%	11.7%	8.0%	9.2%
MSCI EM	3.2%	1,232	1,069	-13.2%	-13.2%	1,450	17.7%	20.5%	17.7%	20.5%
MSCI World	2.2%	755	656	-13.1%	-13.1%	775	2.7%	4.5%	2.7%	4.5%
Mexican Bolsa	3.6%	53,272	51,433	-3.5%	-1.1%	56,000	5.1%	7.9%	5.2%	8.0%
Brazilian Bovespa	8.0%	104,822	108,344	3.4%	17.0%	120,000	14.5%	22.1%	22.6%	30.8%
Colombia COLCAP	6.3%	1,411	1,614	14.4%	15.9%	1,400	-0.8%	2.6%	4.9%	8.5%

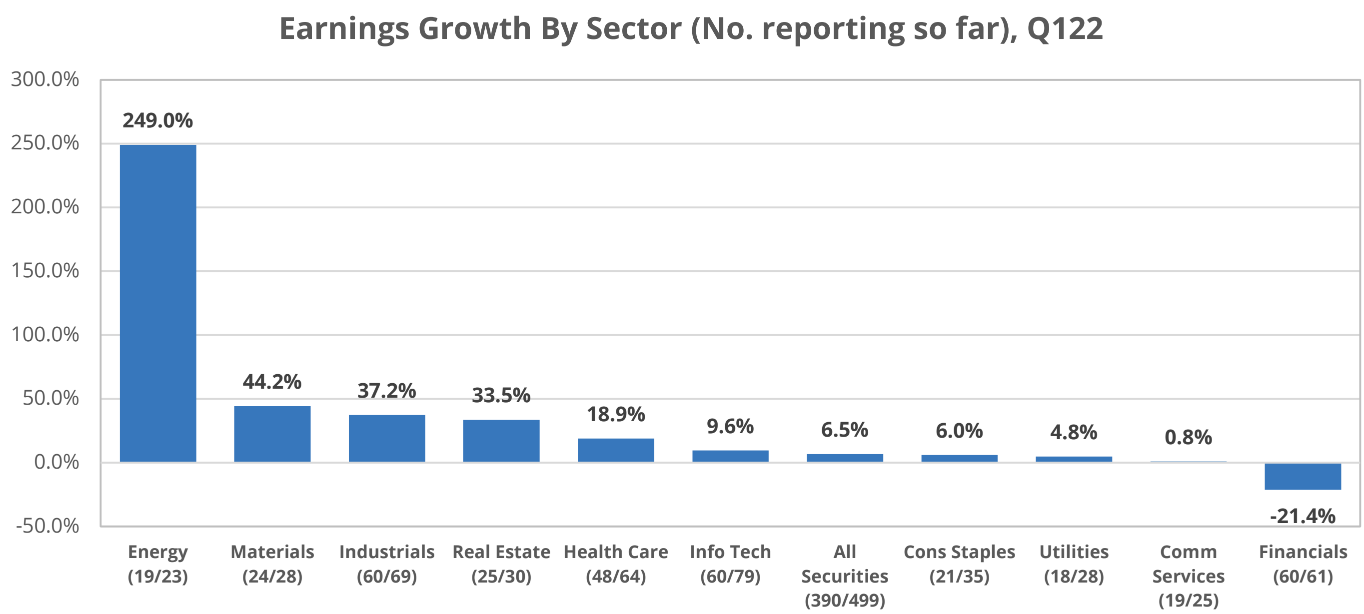
Source: Bloomberg, Bulltick. Chart returns are in USD, excluding dividends *As of 05/04/2022*

Dollar strength and a bounce in response to the Fed meeting on Wednesday have both contributed to the outperformance of the S&P 500 versus other DM indices. We expect that much of the reorientation of the Fed towards a much more hawkish stance – including aggressive rate hikes and swifter balance sheet reduction than we saw in 2017 – has already been priced in, and we remain overweight equities as an asset class, and overweight the US versus Europe and Japan.



Source: Bloomberg, Bulltick

Despite some high-profile disastrous reports, in general earnings growth for the first quarter has been solid. Nearly 80% of firms reporting an upside surprise, among the 390 companies which have reported results. Leading the pack are the natural inflation hedges: Energy, Materials, Industrials and Real Estate.



Alternative Investments

① ***Oil prices are again on the rise,*** most recently receiving a bounce on the news that Europe may be nearing an agreement to stop purchasing Russian energy. Europe has effectively been funding both sides of the conflict in Ukraine, given its provision of weapons and logistics to Ukraine on one hand, and its flow of energy funding to Russia on the other. With spring approaching and heating considerations less of an issue, even Germany has said it is willing to cut the Russians off. If this occurs, greater demand for replacement energy sources should bolster prices globally.

② ***Nevertheless, we do not expect another major leg higher*** as productivity climbs and global growth remains below potential. In the US, the 12-week moving average in the change in crude oil inventories reached positive territory for the first time this year, suggesting supply is meeting demand, at least locally.

③ ***Option strategies have proven costly in recent trading,*** as implied volatilities have kept prices high. However, this is beginning to unwind, with the VIX volatility index falling to around 25, down from nearly 35 less than two weeks ago. The anticipation for the Fed meeting this week was partly to blame for higher readings, and with the meeting having passed with few surprises, we expect that volatility will be more subdued over the short term.

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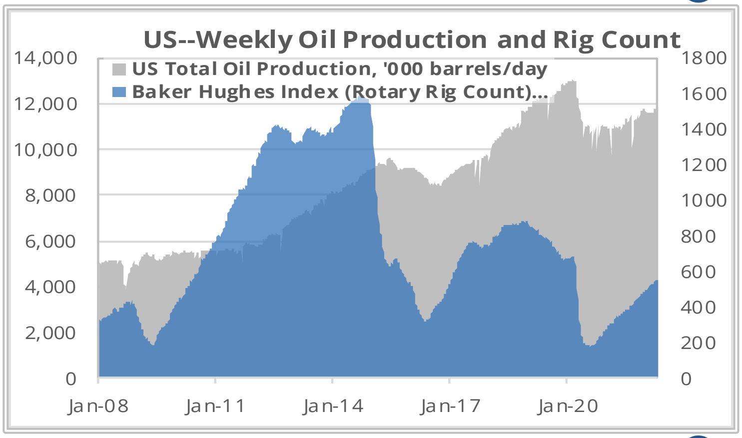

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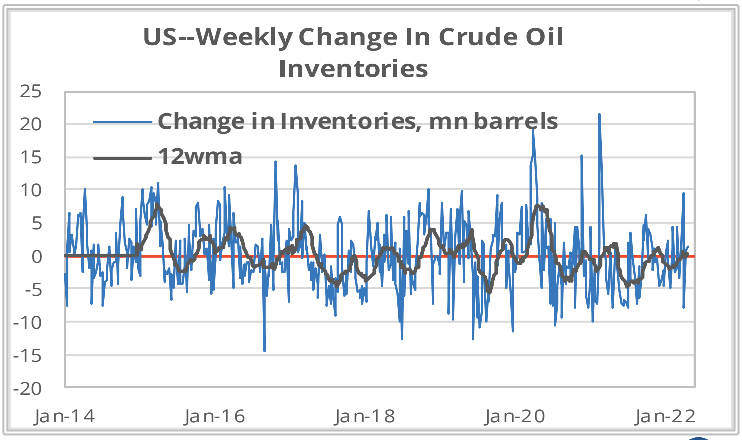

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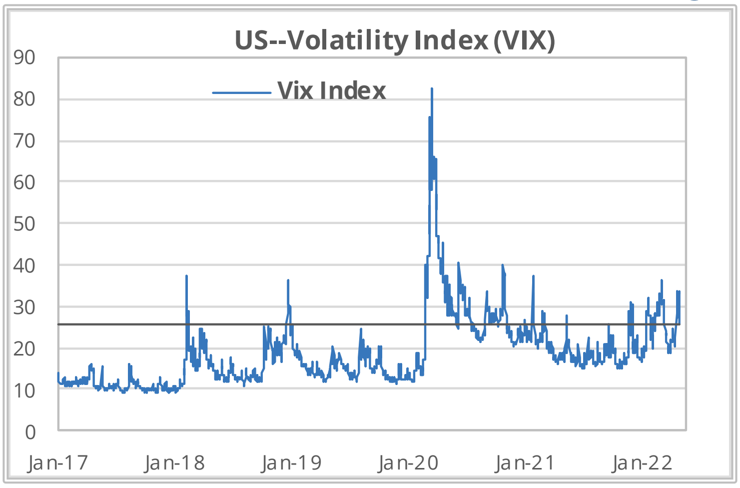

Source: Bloomberg, Bulltick

As of 05/04/2022

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