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Monthly Recap Report

JULY 2022

Overview and Stock insights

Overview

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- **Volatile Oil Markets -** While resiliency in Russia and recovery in China have offset underlying issues regarding supply and demand, persistent physical crude price tensions and extreme refinery margins highlight imbalances for crude and product supply. The WB has warned of the impact of Russia's invasion of Ukraine and its effects on commodity markets, supply chains and inflation - a prolonged burden on the oil market. With an EU embargo on Russian oil set to come into full force at the end of the year, the oil market may tighten once again. With readily available spare capacity running low in both the upstream and downstream, it may be up to demand-side measures to bring down consumption and fuel costs that pose a threat to stability, most notably in emerging markets. Without strong policy intervention on energy use, risks remain high that the world economy falls off track for recovery.

- **Used Car Market Bubble**- Analysts are warning of a used car market bubble in the US with consumers paying $10,000 more to buy a used car than in a 'normal economy.' Car manufacturers are seeing the worst of global supply chain shortages as the COVID-19 pandemic continues to ripple out. Subsequent production constraints and rising new car prices have shifted demand towards used cars, a boom amplified by stimulus cheques, that have provided consumers with a short-term wealth effect that has pushed decisions to purchase a used car. Many of these purchases have been done under sub-prime/precarious loans which have much higher default rates. However, both the reposition rates for prime and sub-prime borrowers have risen - raising flags to analysts, who believe the market is beginning to crumble.

- **US enters a recession**- The US has entered a technical recession after shrinking for two consecutive quarters. GDP fell by 0.9% following consecutive interest rate hikes and falling private investment while rising consumer spending failed to counteract such downward pressure. However, the labour market remains strong, with unemployment rates hovering at pre-pandemic levels (3.6%), while the S&P 500 index recorded its best monthly performance since November 2020 - two positive indicators that remind us that a technical recession is not synonymous with a recession.

- **10-year treasury bonds**- The 10-year treasury bond yield has dipped below the 2-year yield for the second time this year with the inversion deepening to fresh depths. Towards the end of the month, the longer rate dropped as much as 38 basis points below the longer benchmark; a level unseen since 2000. Historically, the yield curve inversion has had a particularly strong track record for calling recessions, calling it wrong just once in the last 40 years. Consequently, investor confidence has taken a large hit in the past couple months with an increasing number of analysts sparking recession warnings.

- **US Home prices**- Existing home sales slowed for the fifth consecutive month in June as higher mortgage rates and rising housing prices lead many families unable to afford to move. Even as home sales slow, home prices have continued to climb with the national median home price jumping 13.4% in June compared to the same month last year, an all-time recorded high. This being said, with demand continuing to fall, home prices could see a huge drop in the coming months as the market tries to find an equilibrium.

- **Gold prices**- The World Gold Council reported that the value of gold fell by 3.5% in July, mainly contributable to the strong dollar and flat demand in the first half of the month. At July end, gold is down 2.9% YTD with Gold ETFs seeing the highest outflows since March 2021 at $4.5B. All regions except Asia experienced outflows this month with North America leading the pack with outflows of $2.8B driven by the largest and most liquid US funds.

- **Cryptocurrency chaos**- Celsius, a cryptocurrency lending, borrowing and access institution, has filed for Chapter 11 Bankruptcy, owing its users about $4.7 Billion. Moreover, it is facing questions following a $1.2 billion hole in its balance sheet. The development is yet another hard hit to crypto, which continues to come under scrutiny and tightening regulation by several governmental institutions and central banks. The Bank of England told investors this month to be 'prepared to lose all your money,' a stark warning that has been accompanied by the high-performance blockchain company, Solana, being hacked - losing a total of $8 million from 8000 wallets.

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US Stock Market Overview for July

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After a near-historic decline over the first half of the year, the S&P 500, bounced back in July with its strongest month since November 2020 with a gain of **9.11%**. The rally is mostly credited to the Federal Reserve's announcement that it will raise its benchmark interest rate by 0.75 percent, which it did on Wednesday. This was a big increase but was less than the 1 percent rise that some analysts had first anticipated. Furthermore, corporate earnings pushed back the bearish sentiment with a gain of **7%**. However, the market remains volatile as there are loads of mixed economic data which implies that the US economy is hanging on the edge of a possible recession. Two consecutive GDP contractions and high inflation would suggest that the economic downturn is inevitable, yet, the labour market remains robust, and consumer spending is rather strong. At this point, given the first-half decline for the S&P 500 of -20.58%, the July rebound is important but the gains still need to be earned.

S&P 500	Price	1-Month (%)	3-Month (%)	YTD (%)	1-Year (%)	5-Year (%)	10-Year (%)
Energy	598.74	9.61	4.60	41.63	60.52	22.30	14.33
Materials	491.31	6.08	-7.99	-13.75	-6.83	43.65	123.36
Industrials	808.28	9.46	0.46	-9.69	-7.48	38.64	159.78
Consumer Discretionary	1281.51	18.90	0.74	-20.44	-10.93	76.36	271.84
Consumer Staples	773.50	3.13	-4.57	-3.87	4.71	35.93	110.02
Health Care	1541.88	3.18	1.54	-6.21	0.21	67.03	246.59
Financials	560.04	7.01	-2.38	-13.85	-7.72	34.57	183.66
Information Technology	2522.61	13.48	1.80	-17.44	-6.35	157.30	440.86
Communication Services	192.55	3.51	-2.77	-28.01	-29.54	18.98	24.07
Utilities	375.65	5.39	3.81	3.28	12.09	39.11	95.13
Real Estate	277.49	8.49	-4.77	-14.55	-4.33	37.89	84.47
S&P 500	4130.29	9.11	-0.04	-13.34	-6.03	67.20	199.44

The US enters a technical recession

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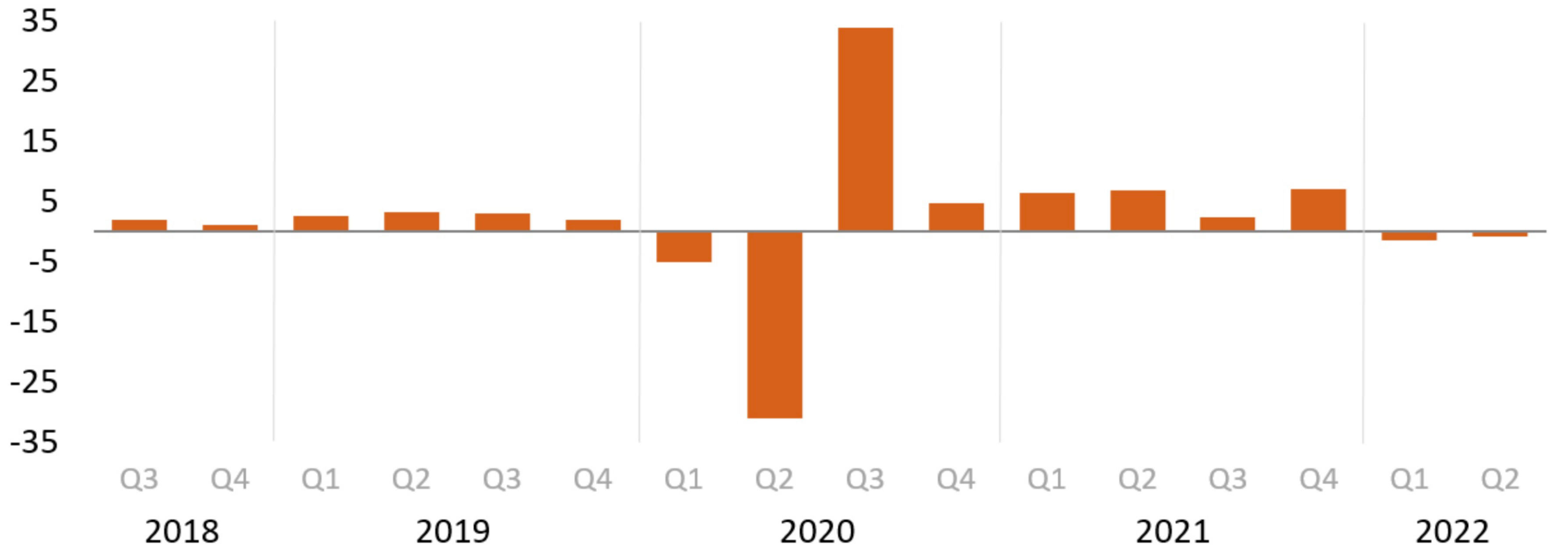
The US economy shrunk for two consecutive quarters, thus entering a technical recession, as increased consumer spending did not suffice to counteract decreased investment in private companies. The GDP fell by 0.9% on an annualised basis in the second quarter, following consecutive interest rate rises of 75 basis points by the Fed. However, a technical recession is not synonymous to a recession. While the consecutive GDP contractions are a strong indicator, other factors are taken into consideration and a holistic overview of the economy is employed. The official definition of a recession according to the National Bureau of Economic Research is rather broad and involves “a significant decline in economic activity that is spread across the economy and that lasts more than a few months.

Another important factor in determining whether the economy is in recession is the labour market, which remains strong with unemployment rates at almost pre pandemic levels at 3.6%. Moreover, the S&P 500 index recorded its best monthly performance since November 2020 with a 9.1% increase in July, while the Nasdaq Composite and the Dow Jones Industrial Average rose by 12% and 6.7% respectively.
Following the news of the GDP contraction, investors began anticipating a less hawkish Federal Reserve, as reflected in the Treasury market. Nonetheless, persistent inflationary pressure is likely to push the Fed to continue aggressive interest rate rises. During its July meeting, the Fed delivered a 75 basis point rate hike, while further increases are expected to follow.



US real GDP percent change from previous quarter
source: US Bureau of Economic Analysis

The picture looks quite similar in the UK and the EU, with persistent inflation leading to interest rate rises, and subsequent fears of a looming recession. The BoE raised interest rates by another 50 basis points, facing and acceleration in more domestically generated services inflation and a tight labour market. Inflation is expected to reach 13% within 2022.

Sen. Sherrod Brown (D-Ohio), chair of the Senate Banking Committee views on Recession :

“A recession will not help us tackle inflation — a recession will only hurt working families,”

“We need to bring down prices for workers and families, and tackle inflation at its source — that means fighting corporate price gouging and consolidation, expanding our housing supply and investing in our supply chains.”

JOBLESS CLAIMS AND CONSUMER SPENDING

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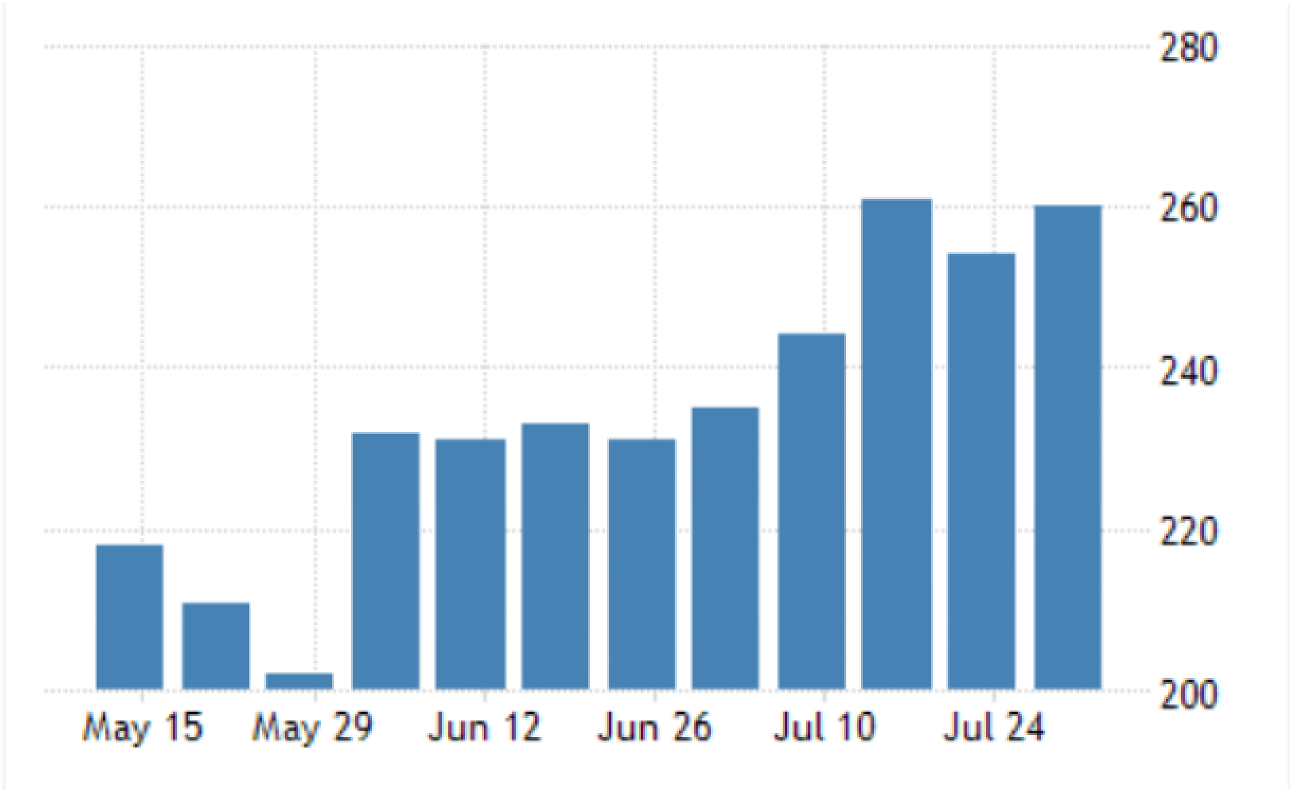
US JOBLESS CLAIMS

The US weekly jobless claims which indicates the number of Americans filling claims for unemployment benefits rose slightly in July. For the week eneded July 30th, claims for unemployment benefits prints **260,000** which marks a slight increase beyond analyst expectations of **259,000**. The US unemployment benefits claims initially dropped less than expected for the week ended 23rd of July as numbers of people who filled for benefits was 256,000 above market expectation of 253,000. The first 2 weeks of July recorded significant amount of new claims adding **9,000** weekly for weeks ended July 16th and 9th. Jobless claims moving average which measures weekly volatility currently stands at 254,750 indicating a **6,000** increase from previous week average of 248,750. The US job market, on the other hand, saw its biggest monthly growth since February as unemployment rate dropped to **3.5%**. US nonfarm payrolls prints 528,000 in July, a significant increase from 398,000 in June. The numbers of additional jobs in July doubles the market estimate of 258,000. The positive labor market report increased the dollar's value above its trading pairs and increased the possibility of the Fed implementing drastic economic tightening

Weekly Jobless Claim Data



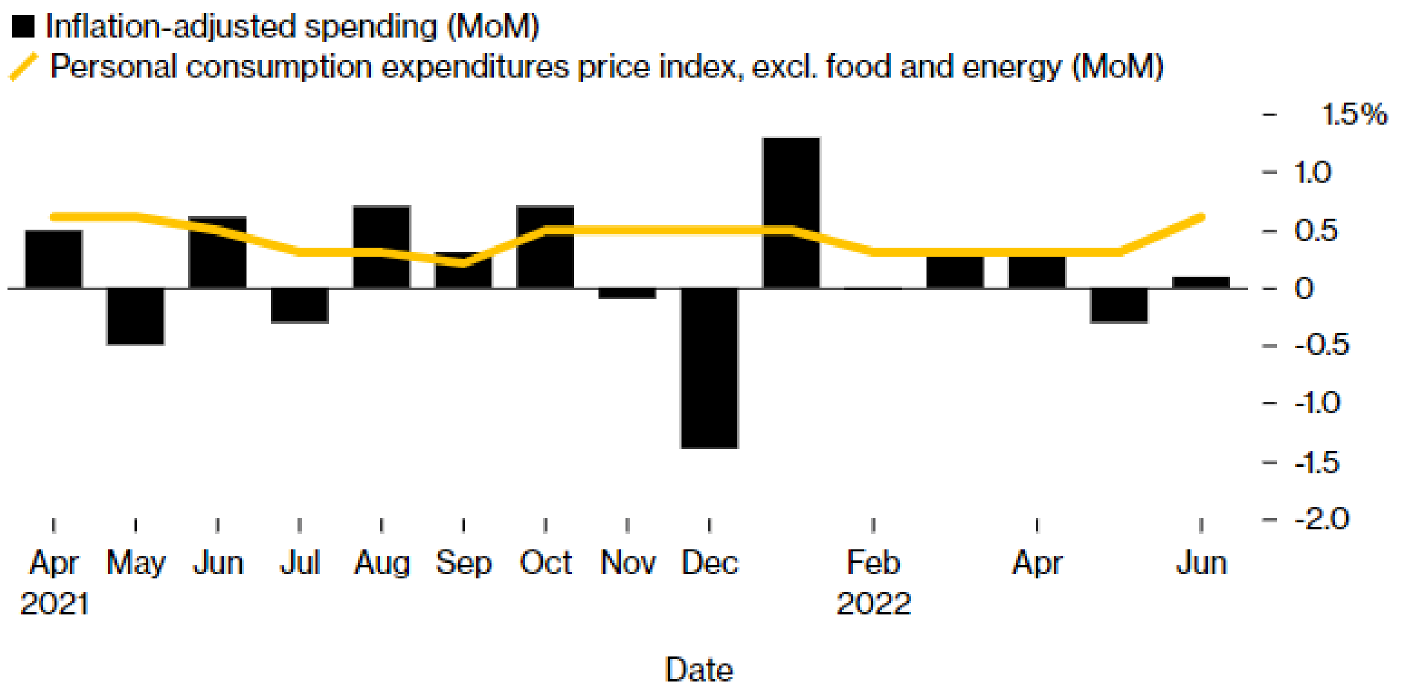
Takeaway

A strong labor market signals the economy could endure more economic tightening policies.

CONSUMER SPENDING

Consumer spending measured by personal consumption expenditures, increased just **1%** for second quarter of the year as inflation currently stands at **9.1%**. Spending on durable and non-durable goods decline by **2.6%** and **5.5%** respectively while consumers spending on services increased by **4.1%**. The US consumers confidence dropped to nearly a 2-year low in July fueled by inflation increase and worries about the Fed aggressive interest rates hikes which shrinks consumers spending and weaken the economy. The market anticipate a shrink in consumers spending as recent report of stronger than expected labor market amidst supply bottleneck signals further inflation increase with the Fed ready to continue increasing interest rate to keep inflation lower. Consumers are likely to revisit their spending plans more often than expected as inflation persists.

Consumers Spending Data



Source: Bureau of Economic Analysis

Takeaway

Consumer Spending in the US increased to $13916.87 Billion in the second half of 2022 from $13881.11 Billion in the first half.

CRYPTO'S NEW PHASE : CHAPTER 11 BANKRUPTCY

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Bankruptcy of Celsius

A new NBC poll shows that one in five Americans have invested in or traded otherwise in cryptocurrency. Hence, bankruptcy is a big concern for investors. Celsius, a customer lending and financial services provider filed for Chapter 11 Bankruptcy, owing its users around **$4.7 Billion**. Moreover, there is a **$1.2 Billion** hole in its balance sheet. According to records, Celsius had $25 Million in assets in May 2021. Celsius is now down to **$167 Million** "cash in hand", which it quotes provide "ample liquidity" in the tough restructuring process.

The major problem is ***Caisse de dépot et placement du Québec***, an institutional investor that manages several public and parapublic pension plans and insurance programs in Quebec, invested its fund in Celsius and now the Canadian Pension Funds are at risk, pointing questions on due diligence by Caisse for Celsius.

Solana Hacked

Solana, a high performance blockchain company, became the victim of crypto sphere's latest hack, reporting that funds have been drained from **8000** wallets, a loss estimated at **$8 million**. Interestingly, the wallets at loss are considered to be "hot" wallets, denoting that these wallets were always connected to the internet. But, this attack is not limited to Solana, wallets like Phantom, TrustWallet and Slope were also affected. In Solana's defense, it had previously warned investors to switch to "cold" wallets, in order to be safe from mentioned unfortunate events.

What seems to have been compromised is the "private key", which is tied to the **Slope Mobile App.** According to users, Slope had been sending its users "Seed Phrases" in plaintext to a centralized server. A seed phrase is identical to a crypto private key, which unlock the funds in the crypto wallet. Plaintext is usually unencrypted, giving the hackers easy access to wallets.

WHAT IS A CHAPTER 11 BANKRUPTCY?

A Chapter 11 bankruptcy allows a company to stay in business and restructure its obligations. Major companies like Voyager, Celsius, K- Mart, have filed for Chapter 11 Bankruptcy.

Declaring a Chapter 11 Bankruptcy, does not mean that the company needs to be shut down, rather the company is at will to stay in business and reorganize its assets, to stay in business in the future. However, Chapter 11 Bankruptcy is not as easy as it sounds, rather it is one of the most complex and expensive form of Bankruptcy proceeding. The legal costs are believed to be very high to be paid by a struggling company. There are a set of rules which leaves individual investors with concerns. Under Chapter 11 Bankruptcy, there is a clear system of payment.

The rules state that, the first ones to get their obligations paid are the Secured Creditors. The next in line, are the Unsecured Creditors. Investors are suppose to get paid in the final step, at last.

1st **Secured Creditors** → 2nd **Unsecured Creditors** → 3rd **Investors**

Individual investors receive their assets on a pro-rata basis. If the company owes $100 million to customers and has $90 million left after paying off debt, customers would get approximately 90% of their deposits returned.

Current Crypto Update

BITCOIN (BTC)	ETHEREUM (ETH)	DOGECOIN (DOGE)
22,966.20USD	1,681.56 USD	0.069 USD
+5.30 (0.02%)	-9.74 (0.58%)	+0.00 (0.07%)

Are Cryptocurrency Holdings protected ?

When a crypto company enters bankruptcy, there are limited options to undertake for the cryptocurrency users. We would like to draw attention to the fact that crypto currency companies are not protected by government-backed insurance. In case of bank failures, Federal Deposit Insurance Companies (FDIC) protects the deposits. In fact, FDIC is very regulated and strict regarding their members. If FDIC members and financial institutions engage in any Crypto currency activities, they are required to disclose that piece of information to the FDIC. In addition to that, Stablecoins too fall outside the FDIC insurance coverage.

Stablecoins are a cryptocurrency asset class designed always to be worth the same amount relative to an underlying asset, like the United States dollar, euro, or physical gold. Asset-backed stablecoins, such as USD Coin and Gemini dollar, issue new currency only when new dollar-backed assets are deposited to the backing account.