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Monthly Recap Report

JUNE 2022 | Overview and Stock insights

MONTHLY OVERVIEW

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US equities market has entered a bear market this month, as higher inflation and higher interest rates and a slowing economy pushed the S&P 500 into official bear territory. After the US inflation report came in higher than anticipated in June, which led the Federal Reserve to increase interest rates by 75 basis points, equity markets experienced a significant decline. Economic indicators indicated worsening conditions, which raised concerns about a coming recession. On the other hand, bond returns were negative as higher rates at the longer end of the curve were caused by central bank tightening and strong inflation. Credit spreads increased, which had a negative impact on the growth of fixed-income performance. Due to the strength of the dollar and its implicit real duration exposure, gold returns were similarly negative for the month. As a result, commodities fell as investors prepared for the likelihood of sluggish commodity demand in the event of a recession. At the month's end, crude oil was down about 8% from June to $105.76. Furthermore, a combination of safe-haven flows and the US tightening its monetary policy more quickly than other industrialized nations contributed to the US dollar's strength against other major currencies. The sell-off of cryptocurrencies persisted. Bitcoin had a 40% monthly decline and finished the month at a two-year low.

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ECONOMIC CALENDER AND INDEXES

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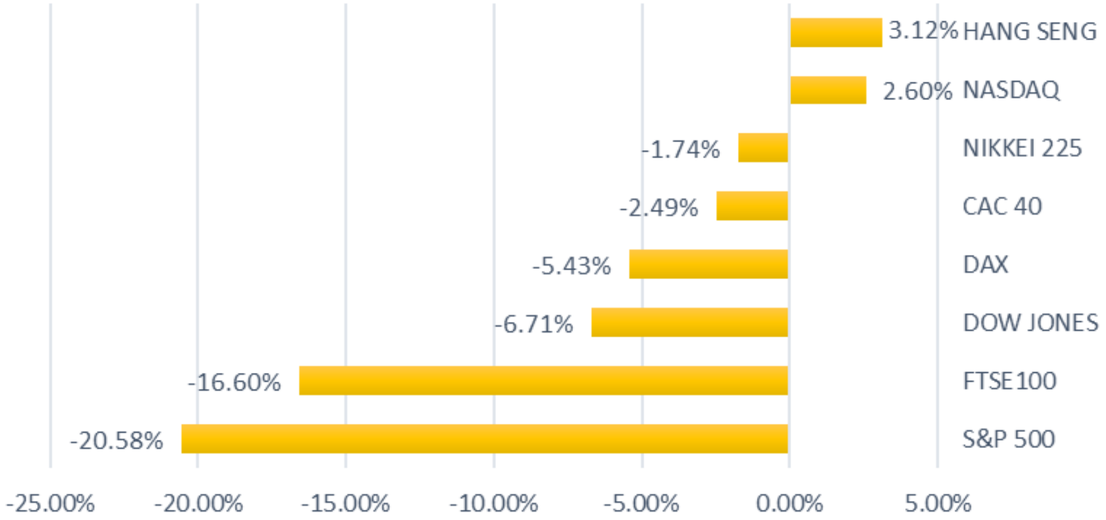
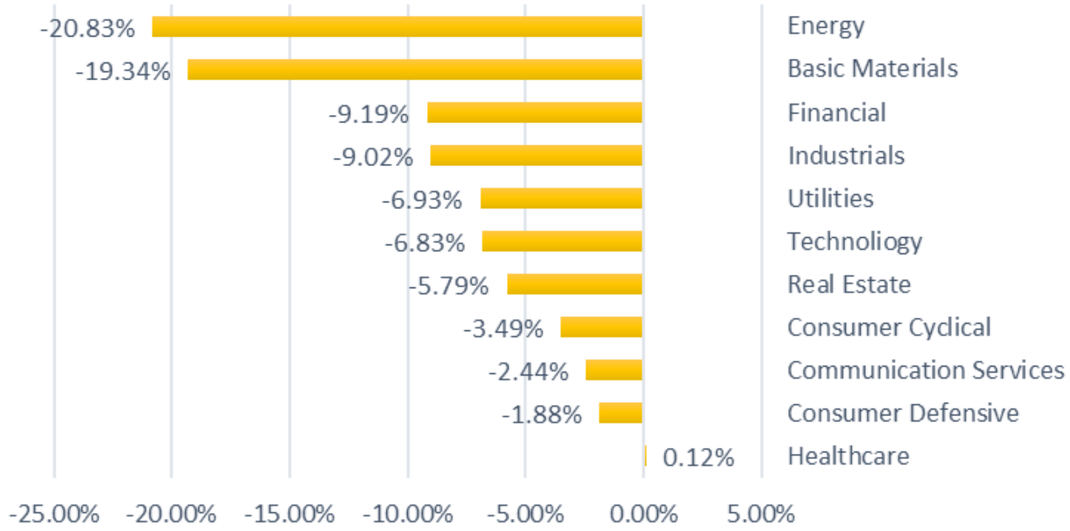
Economic Calendar

Date	Time (GMT)	Flag	Event	Previous	Forecast
01/07/2022	15:00		ISM Manufacturing PMI JUN	56.1	54.9
06/07/2022	15:00		ISM Non-Manufacturing PMI JUN	55.9	54.3
06/07/2022	15:00		JOLTs Job Openings MAY	11.68M	11.25M
06/07/2022	19:00		FOMC Minutes		
07/07/2022	13:30		Balance of Trade May	$-86.7	$-85.5
08/06/2022	13:30		Unemployment Rate JUN	3.60%	3.60%
13/07/2022	13:30		Core Inflation Rate YoY JUN	6%	5.80%
13/07/2022	07:00		GDP MoM MAY	-0.3%	-0.10%
13/07/2022	13:30		Inflation Rate YoY JUN	8.60%	8.80%
14/07/2022	13:30		PPI MoM JUN	0.80%	0.80%
15/07/2022	13:30		Retail Sales MoM JUN	-0.30%	0.80%
15/07/2022	15:00		Michigan Consumer Sentiment JUL	50	49.8
19/07/2022	07:00		Unemployment Rate MAY	3.80%	
19/07/2022	07:00		Claimant Count Change JUN	-19.7K	
19/07/2022	13:30		Housing Starts JUN	1.549M	1.559M
19/07/2022	13:30		Building Permits JUN	1.695M	
20/07/2022	07:00		Inflation Rate YoY JUN	9.10%	
20/07/2022	15:00		Existing Home Sales JUN	5.41M	5.41M
26/07/2022	15:00		New Home Sales JUN	0.696M	
27/07/2022	13:30		Durable Goods Orders MoM JUN	0.70%	
27/07/2022	19:00		Fed Interest Rate Decision	1.75%	
28/07/2022	13:30		GDP Growth Rate QoQ Q2	-1.60%	
29/07/2022	13:30		Personal Spending MoM JUN	0.20%	
29/07/2022	13:30		Personal Income MoM JUN	0.50%	

Indicies Performance



Sector Performance



AN UPDATE ON UKRAINE CRISIS

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Economic Impact

With the Russia-Ukraine conflict now over 4 months old, Russia is beginning to turn its attention to its new neighbors prompting tensions with Eastern Europe (Poland, Romania, Hungary, Slovakia) and the Baltic states. This has shaken commodities markets to their core, and in turn, the broader economy has felt the effects. Inflation, driven down by the rising commodity prices, has squeezed consumers and businesses further. The result is an even more stagflation outcome with global growth weaker and inflation higher this year and next. There are also interesting long-term market trends, implications and caveats stemming from the crisis.

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Investor Power

The corporate response to Russia's invasion of Ukraine is representative of a wider shift in the role of the private sector in society. Swathes of companies continue to announce that they are withdrawing from or suspending operations in Russia, as well as companies proactively donating products or services to the war effort. The real motivator behind this however is investors, regardless of their views on ESG, doing their bit by holding multinational companies to account regarding their behaviour in Russia. The global power and significance of the markets are crystal clear.

Going Green

Russia is the largest supplier of gas, crude oil and coal to the EU, accounting for 45%, 27% and 46% of imports respectively. The war has thrown into sharp focus this fault line in Europe's energy system. In the short term, all options are on the table, including extending the use of coal-fired power generation and potentially intervening in the carbon market. However, the world is noting that decarbonising and electrifying the energy system is the way to end energy reliance on Russia. The effect of this will be seen in the coming months.

Eurozone Equities Underperform

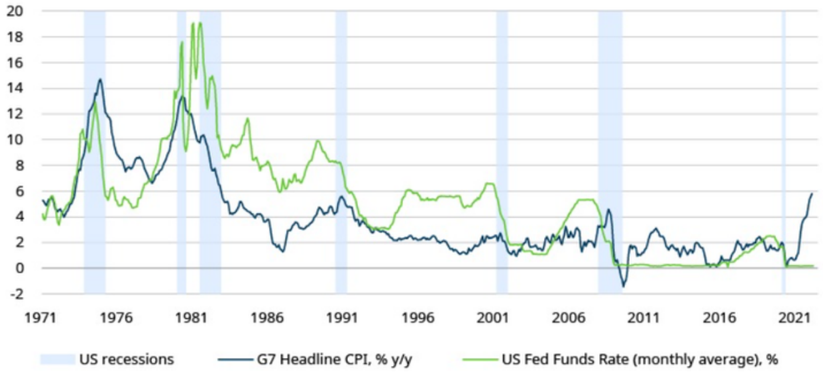
Eurozone Equities fell by 13.2% YTD in the midst of a global fall of -7.3% YTD. Post invasion the effect is even stronger with Eurozone Equities 8.7% off the global average. The underperformance is largely due to growth fears, given the region's geographical proximity to the crisis and fears around higher inflation. The surge in oil and gas prices is threatening a sharp rise in costs for European industry. The effects of this could also cripple ECB monetary policy. going forward, with significant fears of const push inflationary pressures tipping European economies over the edge.

European Cyclical Stock Performance relative to Defensives

Takeaway

The uncertainty present in the European Markets is clear to see with a huge shift towards safe options in stock choice

Inflation, Interest rate and Recesssion



Takeaway

Inflation has soared in the aftermath of the war, hitting levels not seen since the 1990's. Recent Responses by central banks have failed to correct this due to uncertainity from the crisis.

CRYPTO CRASH

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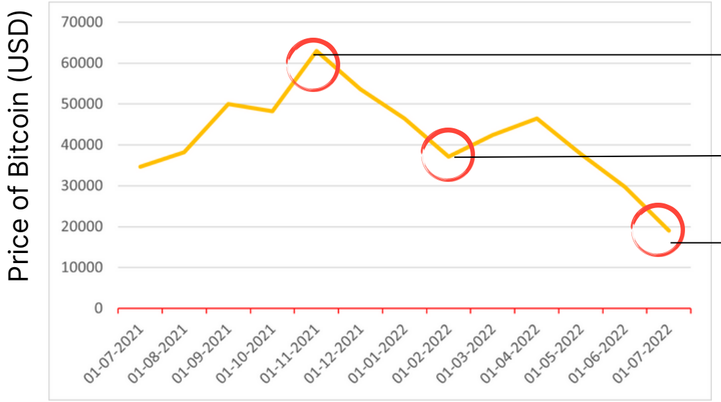
Series of numerous events have discouraged investors all around the world. From real estate to digital assets, everything has sunk under the ground in terms of valuation.
Since the pandemic, businesses and sectors have continued to struggle with **reduced cash flows, supply chain disruptions, shortage of migrant workers due to reverse migration, less demand,** and so forth.

Current Crypto Update

BITCOIN (BTC)	ETHEREUM (ETH)	DOGECOIN (DOGE)
19,150.60 USD	1,054.10 USD	0.066 USD
-140.70 (0.73%)	-18.78 (1.75%)	-0.00 (1.25%)



In 2021, Bitcoin set an all-time high of $69,000 and stood at the market capitalization of almost $3 Trillion, which not only gave rise to optimistic bitcoin investors but also enabled them to make "big bets" on the crypto movement.

Things started to tumble in **January 2022** when the citizens really started to fear the Fed for raising interest rates, and the crypto market dropped below $2 Trillion, losing 70% of its value as compared to the last year in November.

WHY THE CRYPTO MARKET IS REALLY DOWN:
- The pandemic and the war contributing to the disturbed cycles of supply and demand.
- 40-year highest record inflation, suggesting sky-rise prices for goods and commodities which leaves people with less discreationary income in their hands. Less income also implies skepticism in spending and investing.
- Due to the high inflation rates, Fed will continue to increase the interest rates to cool down the burning economy.
- High interest Rates will make safer investments like Government bonds more attractive to the investors, for more stabalized and high returns when compared to the riskier investments like Stocks, Indexes and Cryptocurrency.

BITI, listed on NYSE since 21st June

-Launched by Proshares, a premier provider for ETFs, BITI allows us to acquire short positions to bitcoin, creating hedges in the times of bearish market. It is also worth mentioning that BITI moves against the S&P CME Bitcoin Futures Index. Our research suggests that BITI is extremely risky and expensive due to its high expense ratio which is 0.95%.

Garry Kasparov, the Russian chess grandmaster said

"They'll lose a bit more, but they'll also gain more, which shows that these are already being integrated into the financial system. This is what the whole history of the stock market is about. It's about people making tons of money and then losing a lot of money. But right now,even without recognizing it, the financial markets have already incorporated Bitcoin and Ether and other related currencies into the system."

China warns Investors, states Bitcoin is Heading towards $0

-Economic Daily, a Chinese newspaper warns Investors by clearly expressing that Bitcoin is approaching towards $0 and it is *worth nothing* but a string of codes whose value merely comes from buying low and selling high. It further declares, *"In the future, once investors' confidence collapses or when sovereign countries declare bitcoin illegal, it will return to its original value, which is utterly worthless."* After banning Bitcoin mining last July and all cryptocurrencies transaction last September, China shows a heavy dislike regarding the above mentioned digital asset, and purely criticizes it.

Crypto's central Bank : Sam Bankman Fried

The FTX CEO is said to have been on a shopping spree since he has been funding some of the distressed cryptocurrency ventures. Sam has clearly depicted of expanding his purpose from just another crypto company. It was rumored that he is close to acquire BlockFi for a sum of $25 million after extending a credit of $250 million, but Zac Prince denied such promises. Few days before, FTX also acquired the Canadian exchange company known as Bitvo. Moreover he also stated that he is open to more acquisitions.

The default of Three Arrows

-One of the most eminent cryptocurrency hedge fund from Singapore, Three Arrows filed for bankruptcy when Voyager digital issued a notice on Monday morning that the fund failed to repay a loan of $350 million in the U.S. dollar-pegged stablecoin, USDC, and 15,250 bitcoin, worth about $323 million at today's prices. It was also reported that 3AC failed to meet the margin call requirements by BlockFi.

INFLATION

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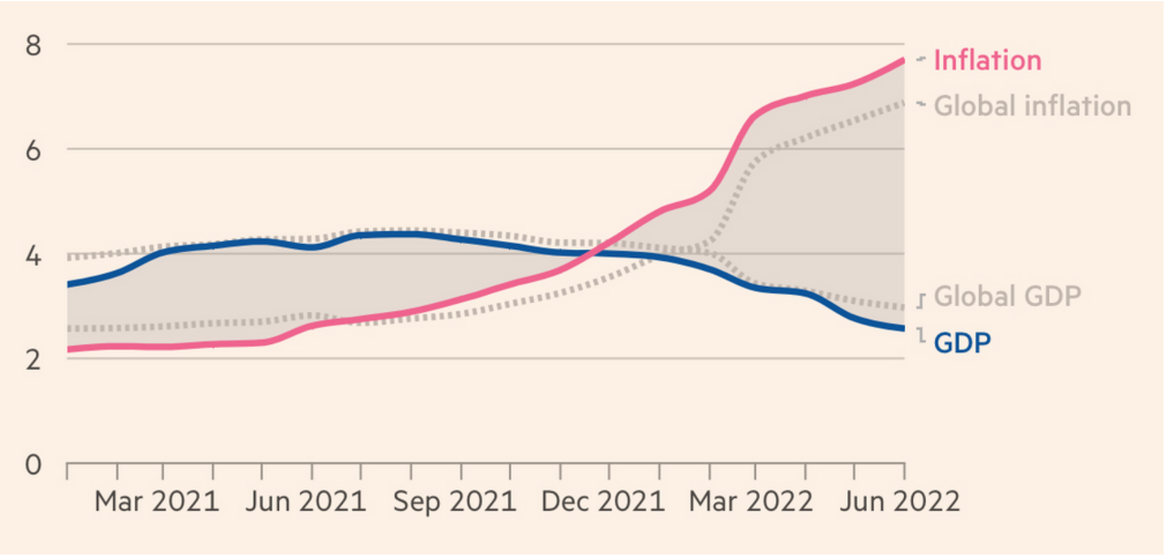
Central Banks remain hawkish amidst fears of a looming recession as inflation persists

Annual percentage changes in consumer price indices reached 8.6% and 9.1% in the US and the UK respectively, and several economies are under significant inflationary pressure. This is the outcome of a combination of several factors including commodity price rises, supply chain disruptions resulting from the pandemic as well as geopolitical tensions and tight labour markets. In both the US and the UK, energy is the most affected sector.

The significant increase in consumer prices above anticipated levels, as well as a rise in inflation expectations pushed the Federal Reserve to adopt more aggressive interest rate hikes. The European Central Bank is also gradually moving from a dovish to a more hawkish sentiment. Given the prevailing inflation trends:

- The Fed proceeded with an interest rate rise of 0.75%, the largest in almost 30 years since 1994. This follows after two interest rate hikes earlier this year, the immediate impact of which on inflation is yet to be seen.
- The Bank of England rose interest rates by 0.25%. In spite of being a less aggressive move, it constitutes the fifth consecutive interest rate rise by the Bank of England, leading to an overall benchmark rate of 1.25%
- The ECB will cease its bond-buying scheme, which constituted the main source of economic stimulus in the eurozone, and is expected to increase interest rates by 25 basis points within July. The ECB had maintained a more dovish stance on inflation compared to other Central Banks, with negative interest rates since 2014, and the move will be its first interest rate hike since 2011.
- Interestingly, the interest rate hikes by most Central Banks may put pressure on the Central Banks of countries, such as Japan, that have successfully maintained lower inflation levels to nonetheless increase interest rates in order to avoid currency depreciation.



US inflation tracker, Source: Financial Times

Overall, Central Banks had underestimated inflationary pressure and are now tasked with striking the delicate balance between increasing interest rates to meet inflation expectations, while ensuring the tightening is not aggressive enough to cause a rescission.