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Market Update: Is the Worst Behind Us – First Glimmer of Hope or Bear Market Rally?

May 31, 2022

In April and May, especially in the major US equity indices, we had to watch six or seven negative weeks in a row, which is nothing for stock owners with weak nerves. Crypto exchanges also entered a kind of capitulation phase, led by the bank run on one of the largest crypto ecosystems Terra (Luna) with its stablecoin USDT. Leading the way is the technology-heavy Nasdaq, which has lost about 26% year-to-date through May 23 and as much as about 31.4% since its all-time high. It takes a very long time to look back to find such a long negative phase without a countermovement. We have come across 1971, the period followed by stagflation and the great oil crises of the 1970s. Once again, the question arises as to what extent we are in a similar situation. At present, we do not believe that it is comparable. Because times have changed a lot. Back then, there were no technological leaps and no huge economies of scale like there are today. In addition, large companies and the private equity sector, but above all countries with trade surpluses or their sovereign wealth funds, are sitting on more cash than ever before. The fact that we are seeing a contraction in the economy, that inflation is higher than it has been for a long time, and that interest rates have risen but are still below inflation compensation, is not a new insight. Much of this is likely to already be reflected in prices. Following the end of loose money by the Federal Reserve, the market is seeking its new equilibrium. This process may take some time, and a recession in the US already seems to be priced in. If there is no threat of a global recession or even a world war (which we do not expect), the facts described above will eventually form a natural floor for the markets.

Unfortunately, we also recorded high losses with our investments, especially in large tech companies such as Microsoft, Apple, and Alphabet. On May 26, we saw the beginning of a trend reversal in the markets. Companies that reported poor quarterly figures, but above all a very pessimistic outlook for the next quarters, were no longer punished with double-digit losses as before, but even moved into the profit zone at the end of the day.

On May 27, there was a further recovery on the stock markets, especially in the sectors that had fallen since November. We found the Bank of America's 'Global Fund Manager Survey', published at the beginning of May, exciting. This is a regular global survey of fund managers. In it, we note the lowest growth expectations since the report came into existence.

Chart 5: Global growth optimism at new record lows
FMS net % expecting stronger economy

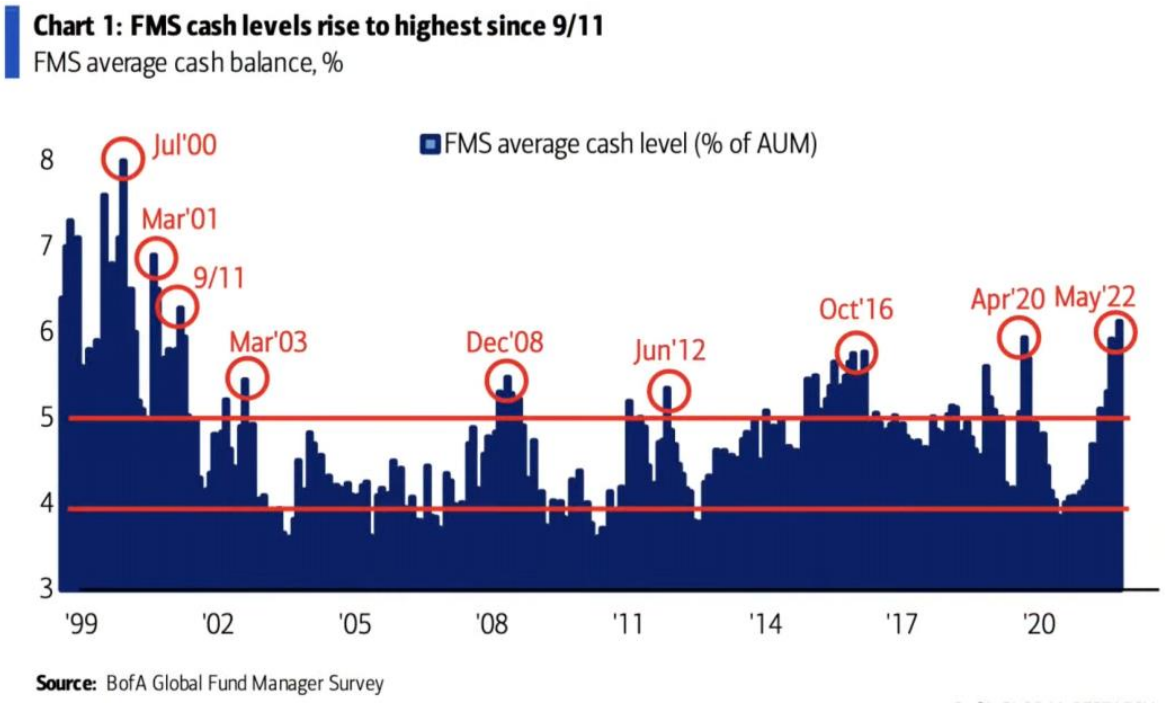
Source: BofA Global Fund Manager Survey

The professionals additionally expect the lowest profit growth since October 2008.

Chart 6: FMS profit expectations fall further to lowest level since GFC
Net % say global profits will improve

Source: BofA Global Fund Manager Survey

In addition, the highest cash positions have been held since 9/11 and the bursting of the dotcom bubble in 2000, and they are even higher than in the financial crisis of 2008. All these seem to us to be good contra-indicators, but by no means signs of an all-clear. Ultimately, it is always a question of the fundamental development of the economy and companies.



Conclusion – Risk and Fear Indices Point to Further Recovery

The sentiment and the positioning are more negative and conservative than they have been for a long time. What conclusions can we draw from this? Either we are sliding into a huge global recession and will see much lower prices, or much is already priced in and the markets seem to be looking for their (first) bottom. Unfortunately, we won't know for 12-18 months whether we are just experiencing a bear market rally from 05/26 or have already reached the bottom of the stock market in 2022. For this reason, one should not put all one's eggs in one basket. As we all know, timing is difficult. However, if we now take the statistics cited above as contra-indicators and also see that China is slowly opening up again, adjusting its Covid strategy at least somewhat, and also that the fear of the Ukraine war is no longer dominating the markets, we can be cautiously optimistic. We observe that the market has priced in a relatively quick revaluation due to the changed interest rate situation. For a few days now, we have even been seeing slightly falling interest rates at the long end again. All of this currently speaks in favor of the tech sector, especially the large tech companies with good balance sheets. After six months of underperforming certain sectors relative to the indices, they are now showing interesting recovery potential, the likes of which we have not seen in a long time. Other sectors also seem to be becoming more attractive again. We see companies as particularly attractive that have a good market position and can pass on price increases to their customers. As a long-term investor, you should therefore

consider establishing or expanding positions here if you don't already have them in your portfolio or have cash positions.

Our Strategy – Buy, Hold or Sell?

We are not known as a trading-oriented asset manager, but as a company that invests with a long-term investment horizon and a clear vision. Therefore, such price declines and supposed bottoms offer opportunities that can be exploited in the long term. However, one must always be aware of the risks that currently exist, both geopolitical and economic, but above all from the interest rate side. As a first measure, we unwound half of our short position in our model strategies in the S&P 500 at the end of May. We will continue to analyze the situation closely and make adjustments as necessary.

If you have any questions or need a more in-depth analysis, please do not hesitate to contact us. We look forward to exchanging ideas with you.

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