Weekly Investment Highlights: 2nd November 2022

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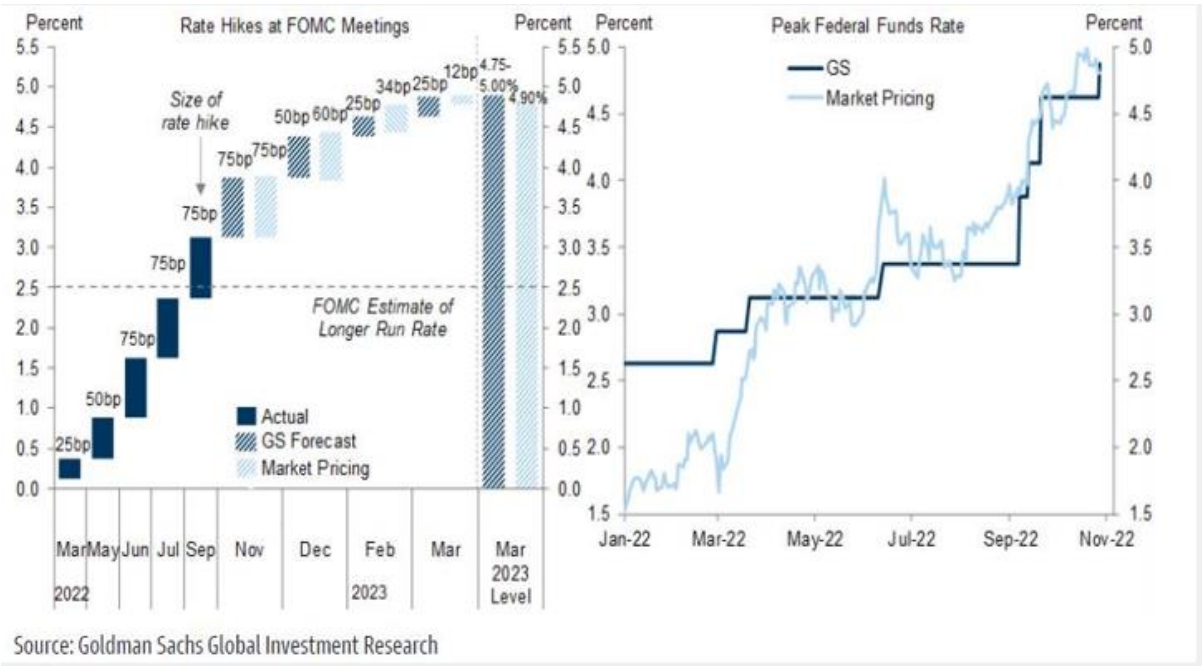
Markets Await FOMC Rate Decision

The FOMC is set to deliver a fourth consecutive 75bp hike at its November meeting today.

This is a significant step because it will raise the target range for the fed funds rate to 3.75-4%, a range that Fed officials appear to see as more clearly restrictive relative to their assessment of the short-run nominal neutral rate in a high inflation environment.

Going forward the market is still pricing a 50bps increase in December with two 25bps rate increases priced in for Q1 2023 implying a peak Federal Funds rate between 4.75 - 5%.



Source: Goldman Sachs as of 01.11.2022

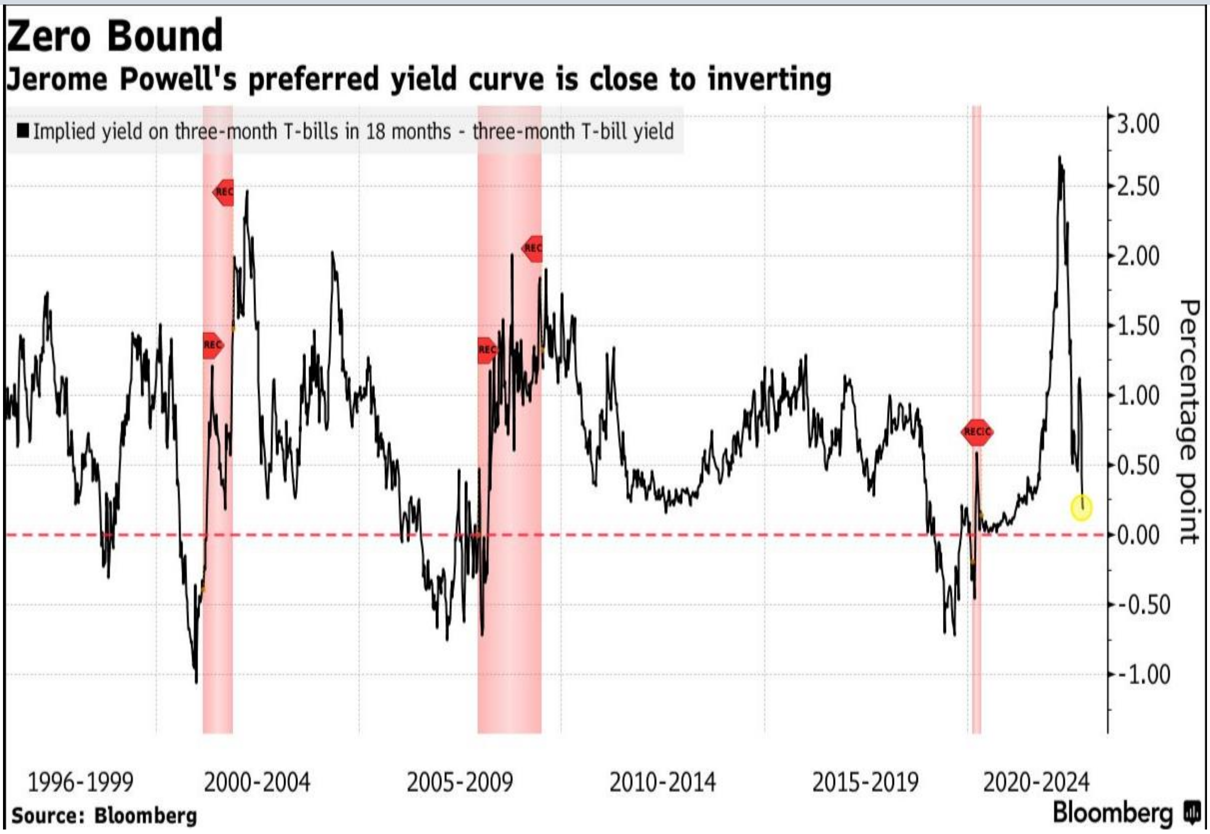
Powell's Preferred Yield Curve On The Verge Of Inverting

The Federal Reserve's fifth-straight outsized rate hike may spur fresh warnings that a recession is inevitable, based on a bond-market signal preferred by Chair Jerome Powell himself.

Powell's favoured yield curve -- where three-month rates are now versus where they are expected to be in 18 months' time -- is on the cusp of inverting, with the spread between the two tumbling to a mere 0.2% onTuesday from 2.7% in April.

An inverted yield curve is a key warning sign for many investors that a recession is coming, and many closely watched spreads in the Treasury market have already flipped below zero.

Based on the above, will be interesting to see if Powell hints at any signs of a 'Pivot' or a 'Pause'.



Source: Bloomberg as of 01.11.2022

Potential Scenarios Based On The FOMC Rate Decision

JP Morgan's top analysts have prepared a summary of scenarios on how the S&P could react on Fed Day today.

We are leaning towards Scenario 3 wherein the Fed announces a 75bps hike but softens the tone of future rate hikes (sound dovish).

Overall scenario 3 would come as a pleasant surprise resulting in a rally across equities and bonds.

Below are the scenarios from the JPMorgan team on how the S&P 500 could react on Fed day.

- 50 basis point hike, with a dovish press conference: "It is difficult to conceive of a scenario where this outcome occurs given inflation levels and a tight labor market," the team wrote. "Should this outcome occur, the immediate reaction could produce a double-digit one-day return for equities." S&P 500 up 10% to 12%
- 50 basis point hike and a hawkish press conference: An outcome that could stem from a Fed that is increasingly concerned about financial stabilities as it balances growth and inflation. S&P 500 up 4% to 5%
- 75 basis point hike and a dovish press conference: A scenario viewed as having the second-highest probability of playing out. "If you saw the Fed give explicit guidance for the December meeting, then that is likely viewed as a dovish outcome." S&P 500 up 2.5% to 3%
- 75 basis point hike and a hawkish press conference: "This is the most likely outcome with Powell retaining optionality for December and 2023 meetings while emphasizing the current risks to inflation moving higher." The team also views this as the outcome most expected by bond markets, so says there may not be a significant move in yields that keeps equities from melting down. S&P 500 down 1% to up 0.5%
- 100 basis point hike and a dovish press conference: While this is seen as unlikely as a 50 basis point hike, it may mean the Fed both wants a higher terminal rate and wants to complete the tightening cycle this year. "Separately, the market may digest this move as the Fed having prior knowledge of where next week's CPI prints." S&P 500 down 4% to 5%
- 100 basis point hike and a hawkish press conference: Considered the best outcome for equity bears waiting for this latest rally to dissipate. "Here this would seem to be a Fed reassessing its own inflation forecasts, which some investors feel is too optimistic." S&P falls 6% to 8%, likely resting year-to-date lows

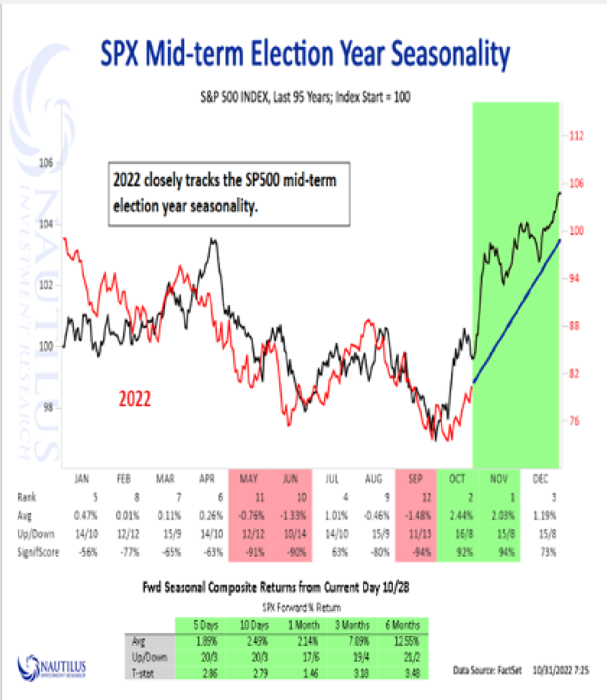
Source: JP Morgan as of 01.11.2022

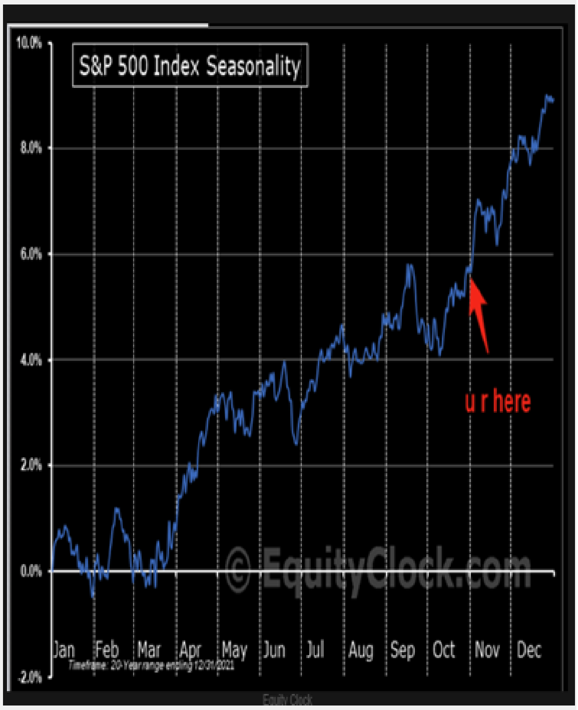
Strong Q4 Seasonality

Despite the disappointing Big Tech earnings last week, we still managed to have a strong close to October with the Dow having its best month since 1976. The S&P also rallied 8.4% to close down -18% YTD.

We are now in the midst of the best seasonal period of the year starting this week. And even BETTER during MID-TERM election years.

Adding to the seasonality, November also sees strong equity inflows and the commencement of the buyback period. As a result, we would not be surprised to see the markets continue their recent upward trajectory with the SPX rallying another 5-7%.





Source: Bloomberg as of 01.11.2022

Bitcoin Treading Water

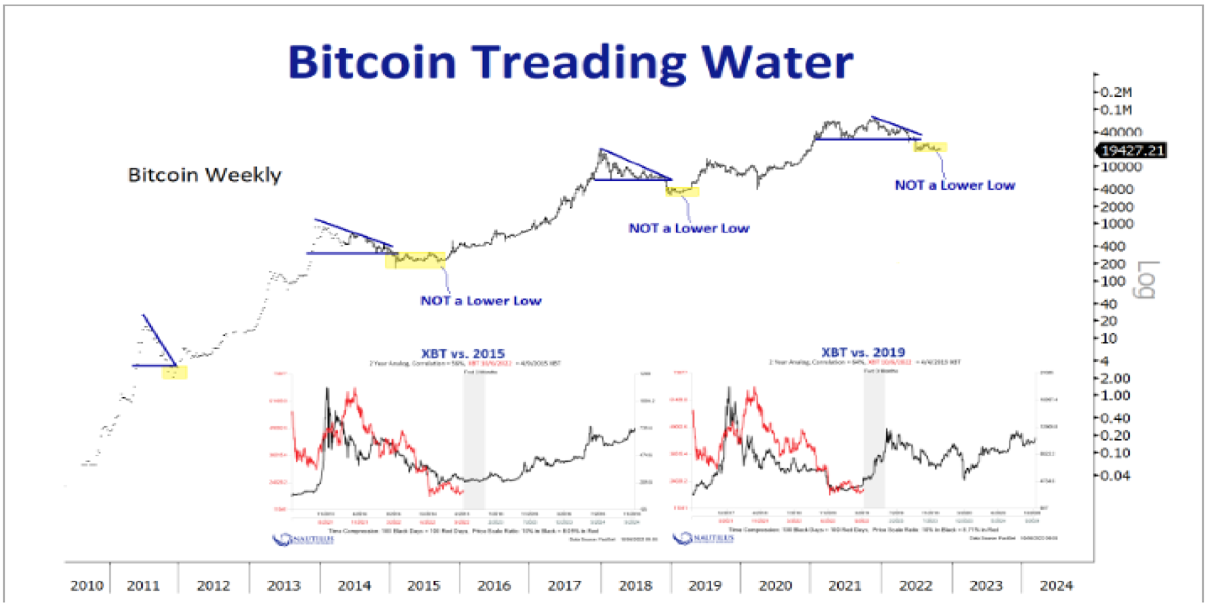
Bitcoin has certainly been a very good proxy for the general 'risk appetite & sentiment'

The set up below looks quite encouraging and like equities, Q4 has proven to represent some of the best months of the year for Bitcoin.

If the current price action is similar to the price action we saw in 2015 & 2019, then Bitcoin is certainly on the verge to regain the powerful uptrend.

Key Observations:

1. **Bitcoin is treading water.** A powerful uptrend followed after Bitcoin treaded water back in 2015 and 2019.
2. **Bitcoin and momentum are synonymous.** Forward returns are positively biased when Bitcoin trades above its one-month and six-month moving averages.
3. **The Seasonal Inflection point is at hand.** October, November and December have proven to represent some of the best months of the year for Bitcoin. Bitcoin "held in" through August & September, typically the worst 2 months annually. **The next 1-3 months include the strongest back-to-back months historically.**



Source: Nautilus as of 01.11.2022