KANDOR GLOBAL

A Hawkish FED Increased Recession Concerns

As of May 31, 2022

June closed the worst first half of the year for equities since 1970[1] as soaring inflation, tightening monetary policies, geopolitical shocks and Covid restrictions in China created a very hostile environment for investors. The freefall continued in June as the inflation report for the US showed a greater-than-expected reading of 8.6% YoY, which led to a 75bps increase in the FED's target rate. Yields spiked after the inflation reading, but then declined as recession fears led investors to seek safe havens, mainly in government bonds. The combination of high inflation and recession fears produced another month with negative returns across all traditional asset classes.

US Equity	Jun-22	YTD	Last 12m
S&P 500	-8.3%	-20.0%	-10.6%
Russell 1000	-8.4%	-20.9%	-13.0%
Russell 1000 Value	-8.7%	-12.9%	-6.8%
Russell 1000 Growth	-7.9%	-28.1%	-18.8%
Russell 2000	-8.2%	-23.4%	-25.2%
Russell 2000 Value	-9.9%	-17.3%	-16.3%
Russell 2000 Growth	-6.2%	-29.5%	-33.4%
International Equity			
MSCI All-Country World ex-US	-8.6%	-18.4%	-19.4%
MSCI EAFE	-9.3%	-19.6%	-17.8%
MSCI Europe	-9.9%	-20.8%	-17.6%
MSCI Japan	-7.9%	-20.3%	-19.9%
MSCI Emerging Markets	-6.6%	-17.6%	-25.3%
Fixed Income			
U.S. Intermediate Treasuries	-0.7%	-5.8%	-6.4%
U.S. Long Treasuries	-1.5%	-21.3%	-18.5%
U.S. TIPS	-3.2%	-8.9%	-5.1%
Corporate IG Bond	-2.8%	-14.4%	-14.2%
High-Yield Bonds	-6.7%	-14.2%	-12.8%
Tax-Exempt Bonds	-2.6%	-10.7%	-9.7%
International Bonds	-3.2%	-13.9%	-15.2%
Emerging Market Bonds	-4.6%	-17.1%	-18.0%
Currencies			
Us Dollar	2.9%	9.4%	13.3%
Euro	-2.3%	-7.8%	-11.6%
Yen	5.5%	17.9%	22.1%
Emerging Markets	-2.2%	-3.9%	-4.1%
Real Assets			
Commodities	-10.8%	18.4%	24.3%
Energy	-17.0%	29.2%	34.1%
Industrial Metals	-13.8%	-12.3%	-4.9%
Gold	-1.6%	-1.2%	2.1%
Master Limited Partnerships	-14.0%	10.0%	4.3%
Real Estate Investment Trust	-7.4%	-20.2%	-6.3%
Alternative Investments*			
Equity Hedge	-2.0%	-4.7%	-0.9%
Equity Market Neutral	-3.2%	-2.4%	-3.8%
Event Driven	-2.1%	-6.2%	-8.9%
Relative Value Arbitrage	-3.3%	-9.2%	-9.6%
Macro	1.4%	3.3%	0.9%

Source: Bloomberg data

*AI Source: HFRI Hedge Fund Indices

US Equity

The S&P 500 had its second worst month of the year registering a -8.3% return. The current environment weighed on all sectors, which all had negative returns. The top performing sectors were health care, consumer staples and utilities, benefiting from their defensive characteristics while materials and energy were the worst performers, dragged down by the drop in commodities. Growth factor outperformed value as recession fears caused a drop in rates which benefited technology stocks. The cyclical sectors on value weighed on the factor. Small caps slightly outperformed large caps but continue behind for the year.

International Equity

Negative returns were also present in international equities, especially in developed markets. Europe experienced the worst returns, as risks of stagflation continue to grow. The June CPI for the Euro Area soared to 8.6% YoY increasing the likelihood of an ECB rate hike. The minutes of the ECB June Monetary Policy meeting showed that most ECB policymakers favored a 25bps rate hike in July and opened the door to a larger increase in September[2]. Emerging markets were the best performing region thanks to China, due to easing Covid-related restrictions and monetary and fiscal stimulus. The MSCI EM ex-China returned -12.60%[3] as lower commodities prices, tighter financial conditions and a stronger dollar weighed mainly in LATAM and the middle east.

Fixed Income

A tight labor market and the inflation reading sent yields soaring on the first half of the month, but after the FED's decision they sharply declined as recession fears grew. Still, yields ended the month higher with the US 10-year Treasury yield increasing from 2.84% to 3.01% and the 2-year from 2.55% to 2.95%[4]. Corporate bonds were the worst performers as investors worried that slower economic activity will increase default rates, especially in lower rated bonds.

Alternative Investments

It was also a negative month for hedge funds that only had green returns in macro strategies that benefited from interest rate movements. Factor rotation dragged down market neutral strategies while uncertainty affected event driven funds.

Liquid Real Assets

Diminishing growth weighed on the price of commodities that were on a bull run since the economic reopening from the Covid pandemic. Energy faced a big drop due to demand concerns and OPEC's increasing commitments to raise production[5]. REITs continued to fall as the housing markets cools off and rates rose. Gold also had a negative month as it faced headwinds from rising rates and a stronger dollar.

Sources:

1. July 2022. Greycourt. Capital Market Flash Report. A summary of global market activity in May. Link
2. July 2022. Trading Economics. Euro Area Interest Rate. Link
3. Bloomberg data.
4. Bloomberg data.
5. July 2022. Greycourt. Capital Market Flash Report. A summary of global market activity in May. Link