



August 2022

Market Commentary



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As before, the geopolitical tensions and their consequences do not seem to be resolved at present. The Ukraine-Russia conflict continues, tensions around Taiwan are growing, inflation figures continue to rise globally, and the dangers of a possible gas supply freeze for Europe persist. Most recently, the utilization rate of the Nord Stream 1 pipeline dropped to 20 percent, which poses significant challenges for Europe looking ahead.

The historically high inflation rates in the USA (9.1%) and the euro zone (8.6%) are not yet coming down and will continue to be tested, above all by supply bottlenecks due to the war in Ukraine. The economies of the industrialized countries are being impacted by rising input prices. This is also illustrated by the recent drop in PMIs (Purchasing Managers Index) in the industrialized countries. In addition, interest rate hikes by the Fed and the ECB are clouding the economic outlook. The financial market environment therefore remains volatile.

With the interest rate decisions in July by the ECB (50bp) and the Fed (75bp), the two central banks made it clear that containing inflation is currently a top priority.

For Europe, the 50 basis point increase in key interest rates was the first rate hike in 11 years and also marked the end of negative interest rates. Against the backdrop of rising inflation figures, the rate hike was higher than initially announced. In addition to this decision, the ECB announced a new (government bond) purchase program TPI (Transmission Protection Instrument). With this program, the ECB intends to prevent spreads in the euro area from rising too sharply and thus counteract fragmentation.

There have been two important macroeconomic developments since June. First, economic data was weaker than expected and second, core inflation rose more than initially expected. In particular, Q2 U.S. GDP numbers, which fell for the second consecutive month, point to a technical recession. U.S. GDP contracted by 0.9% in the second quarter and by 1.6% in the first quarter. Generally, one speaks of a recession when two consecutive quarters show a shrinking real GDP. Nevertheless, Fed Chairman Jerome Powell dismissed recession concerns by pointing to the still strong labor market so far.

In general, recessions bring significant stresses, from which a sharp rise in the unemployment rate and related economic consequences result. In addition, a recession leads to increased volatility on the financial markets.

In Focus: Recession

- Inflation appears to be falling only hesitantly, despite significant declines in economic activity.
- There are signs of further interest rate hikes by the Fed and the ECB.
- Recession concerns are growing.
- Low growth rates and high inflation rates are unsettling the markets.

Our Solution

With our Alpha Add-Ons in the equity and bond space, we offer an innovative approach that enables institutional investors to optimize their portfolios in an alpha-driven way, especially in highly volatile periods.

Through AI-driven market timing, instead of continuously holding positions, we achieve excellent optimization results especially in times of high market uncertainty and volatility, while being able to significantly reduce costs compared to traditional hedging methods.

The *quantumrock Equity Alpha Add-On* (Bloomberg ticker QREQA) and the *quantumrock Treasury Alpha Add-On* (Bloomberg ticker QRTRA) are available to investors as a stand-alone solution or as a component of our *Absolute Return VSOP* fund.

Quantumrock Absolute Return VSOP's AI and ML-based investment approach targets market-independent returns through a combination of different alpha sources in equities (S&P500), fixed income (10-Year US Treasury) and volatility (VIX). Particular emphasis is placed on strategies that aim to generate so-called crisis alpha by timing volatility (VIX) and the underlying equity market (S&P500) in times of crisis.

This dynamic absolute return strategy, implemented through derivatives, allows us to identify different sources of performance while achieving dynamic protection in sharply falling markets by adding temporary crisis alpha.

Quantumrock Absolute Return VSOP is therefore an optimal diversifier in a broader asset allocation and should improve the risk-return ratio of most client portfolios. The multi-asset investment approach focuses on long-term capital preservation, but requires risk tolerance to short-term drawdowns.

Provided by

Quantumrock Market Research

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