



September 2022

Market Commentary



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The energy market remains tight in many parts of the world, and monetary tightening appears to be continuing. Against this backdrop, global recession concerns also persist.

In addition to the already existing interest rate and recession fears, China's zero-covid policy is once again a burdening factor. For example, a new lockdown was imposed in the megacity of Chengdu after over 100 cases of infection were reported in the city.

These factors bring a high degree of uncertainty and weigh on global equity markets accordingly.

Several central bank meetings are scheduled for the coming week. The focus will be on the ECB decision on September 8 - the consensus seems to favour a key rate hike of up to 75 bp. Policymakers are increasingly concerned about high and rising inflation in the euro area and the risk of inflation expectations becoming entrenched. Still, the doves on the Governing Council may argue for as little as 50 bps, given the current high cost of energy and rising concerns about the economy.

By and large, however, it seems realistic that the majority of the Governing Council would like to bring interest rates to neutral levels as soon as possible so that governments can offset the economic impact of the energy crisis and the euro is not weakened further.

On the other hand, the Fed's next monetary policy decision is not due until the second half of September. Recently released labour market data for August showed that the U.S. hiring metrics remain robust, with 315,000 jobs added and a significant increase in the labour force participation rate. However, these factors could move monetary policymakers to raise key interest rates significantly again in September.

Inflation concerns, which are not abating, also continue to influence the bond markets. Rising energy prices, for example, continue to be a constant factor weighing on consumer prices. In this context, rising inflation hurts bond markets, as it causes central banks to raise short-term interest rates to cool down the economy and thus curb inflation.

In addition to alpha-seeking trading strategies, investments in commodities can be an attractive alternative to diversify and hedge portfolios in times of heightened inflation concerns. Corresponding price movements have already been registered in the commodity sector in recent months. It can be assumed that commodities could provide suitable protection against such price movements, especially in the event of persistently high inflation. Investments in precious metals currently also present a sensible diversification of broad portfolios. Diamonds and precious stones should also offer further potential for risk mitigation. The current situation calls for a broader positioning of portfolios than has been customary to date.

In Focus: Inflation and Commodities

- Uncertainty on the financial markets remains high.
- Further interest rate hikes are expected from the Fed and the ECB.
- A broader positioning of portfolios appears sensible in view of the market situation.
- Commodities, such as raw materials, precious metals as well as diamonds and gemstones represent an attractive opportunity for diversification.

Our Solution

In times of crisis and inflation concerns, commodity ABS investments have become the new normal in addition to alpha-seeking trading strategies. For this reason, quantumrock has partnered with IGI Inex, a global leading producer and holder of gemstones, precious stones, copper, and other commodities. quantumrock, based on its AI Platform, now has the unique ability to develop individualized asset-backed products for institutional clients in minimal time-to-market and a very scalable fashion, with IGI as the asset-backing provider.

We are pleased to share and discuss our first ABS resulting from our partnership in our upcoming webinar: a compelling €250m, 7.25% coupon short-duration bond (DE000A3H2ZP5).

When? 28th September 2022, 3-4 pm CET

Register Here: https://us02web.zoom.us/webinar/register/WN_7Lj-LzuPRASCuL8_OIafxA

Provided by

Quantumrock Market Research

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