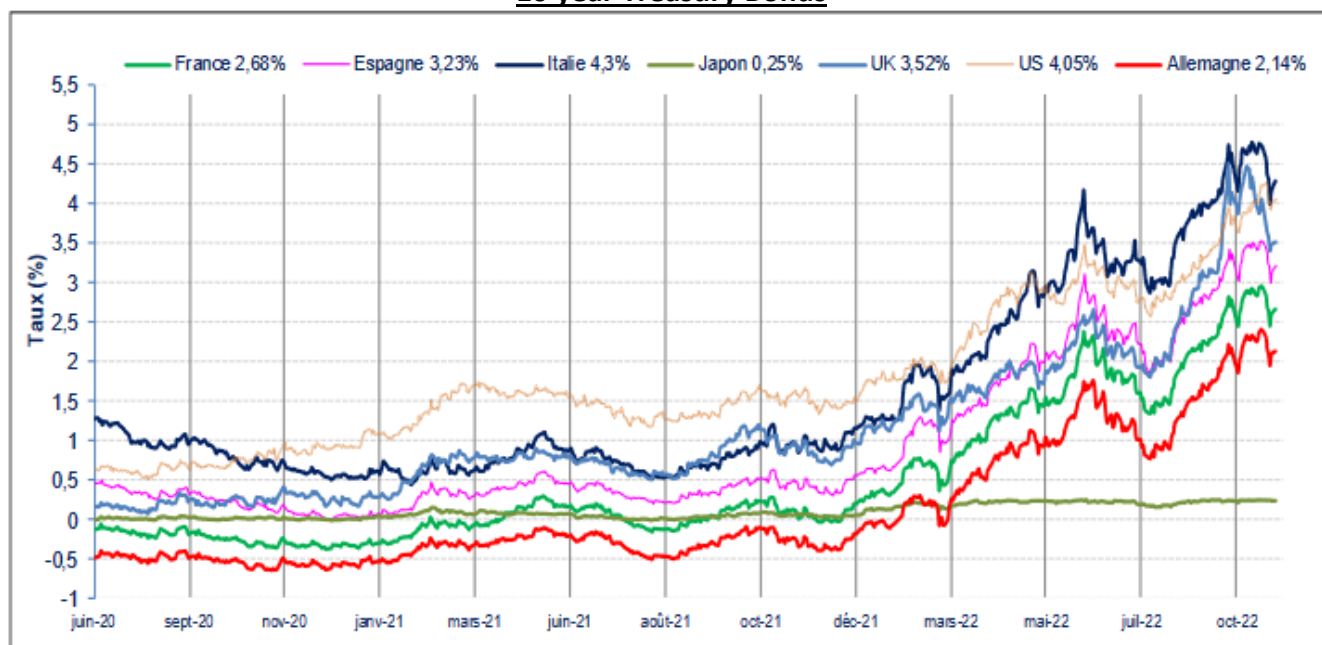


Is the summer of 2022 scenario back?

October marked the beginning of the third quarter earnings season and the much-feared correction simply failed to materialise! Equity markets ended the month sharply higher with the S&P 500 up 8% and the Stoxx600 6% better. Long bond yields, however, continued to rise, taking 10-year US Treasuries 22bp higher to 4.05% and the 10-year Bund to 2.14% (+3bp).

10 year Treasury Bonds



The simple fact is that demand is still resilient and prices keep on rising. As a result, growth continues to surprise on the upside. GDP in the US rose 2.6% in the third quarter and household spending continued to grow in volume (see below). Growth in the Eurozone was up 0.2% in the same period. US inflation, as gauged by the household consumption deflator, stuck at an annualised 6.2% in September but accelerated to 5.3% in services, a new high since inflation started to soar almost a year ago. Inflation in Europe has yet to peak: it rose from an annualised 9.9% in September to 10.7% in October. Ex volatile food and energy prices, it accelerated to 5% in October, up from 4.8% in the previous month.

Structure of GDP in volume – USA (3Q 2022)

	4Q 2021 / 3Q 2021	1Q 2022 / 4Q 2021	2Q 2022 / 1Q 2022	3Q 2022 / 2Q 2022	Composition of GDP as of 3Q 2022
GDP	7,0%	-1,6%	-0,6%	2,6%	100,0%
Personal consumption expenditures	3,1%	1,3%	2,0%	1,4%	70,7%
Residential private investments	-1,1%	-3,1%	-17,8%	-26,4%	3,1%
Residential non private investments	1,1%	7,9%	0,1%	3,7%	14,7%
Exports	23,5%	-4,6%	13,8%	14,4%	13,0%
Imports	18,6%	18,4%	2,2%	-6,9%	-19,4%
Government consumption	-1,0%	-2,3%	-1,6%	2,4%	17,0%

Source: Bureau of Economic Analysis, flash estimation, as of 27/10/2022.

Given the sheer speed and size of rate hikes in so many countries, this situation is unparalleled. The ECB was the latest central bank to move when it raised its three key rates by 75bp for the second time in a row while tightening refinancing conditions for commercial banks.

But given the fact that advanced economies in the last 15 year have never been so awash with liquidity, the bank's decision was not that surprising. The latest economic data show that the decline in inflation central banks want is going to be a slow process.

In other words, we should avoid crying victory too quickly. In the coming months, inflation could well surprise on the upside. Take energy, for example. Gas prices in Europe tumbled 37% in October but essentially because of warm weather. Second, food prices: Russia's move to break the agreement on Ukraine's grain exports could pave the way to more price rises. Third, China's insistence on sticking with its zero-Covid policy is still hitting the economy, most recently with manufacturing PMI which fell below the key 50 level. We can also not rule out a price-wage spiral. Strikes in France and also in Germany, where the metal workers union has called for action, show that wage pressures are rising in Europe. And long-

term inflation expectations are still above central bank objectives: Michigan University's household confidence survey in October showed that five-year inflation expectations were running at 2.9%.

We need to be patient. Systemic risks are resurfacing and there is always the possibility that economic policy could go wrong.

NAV OF THE FUNDS

NAV Date	UCITS	NAV	Cumulated Performances							
			% 1 Week	%1 Month	%3 Months	%YTD	%1 Year	%2 Years	%3 Years	%5 Years
31/10/2022	HUGAU OBLI 1-3 I	1 338,20	0,67	-0,43	0,16	-5,61	- 5,62	- 1,54	- 3,84	- 4,45
31/10/2022	HUGAU MONETERME I *	114 579,65	0,020	0,032	-0,058	NA	NA	NA	NA	NA

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