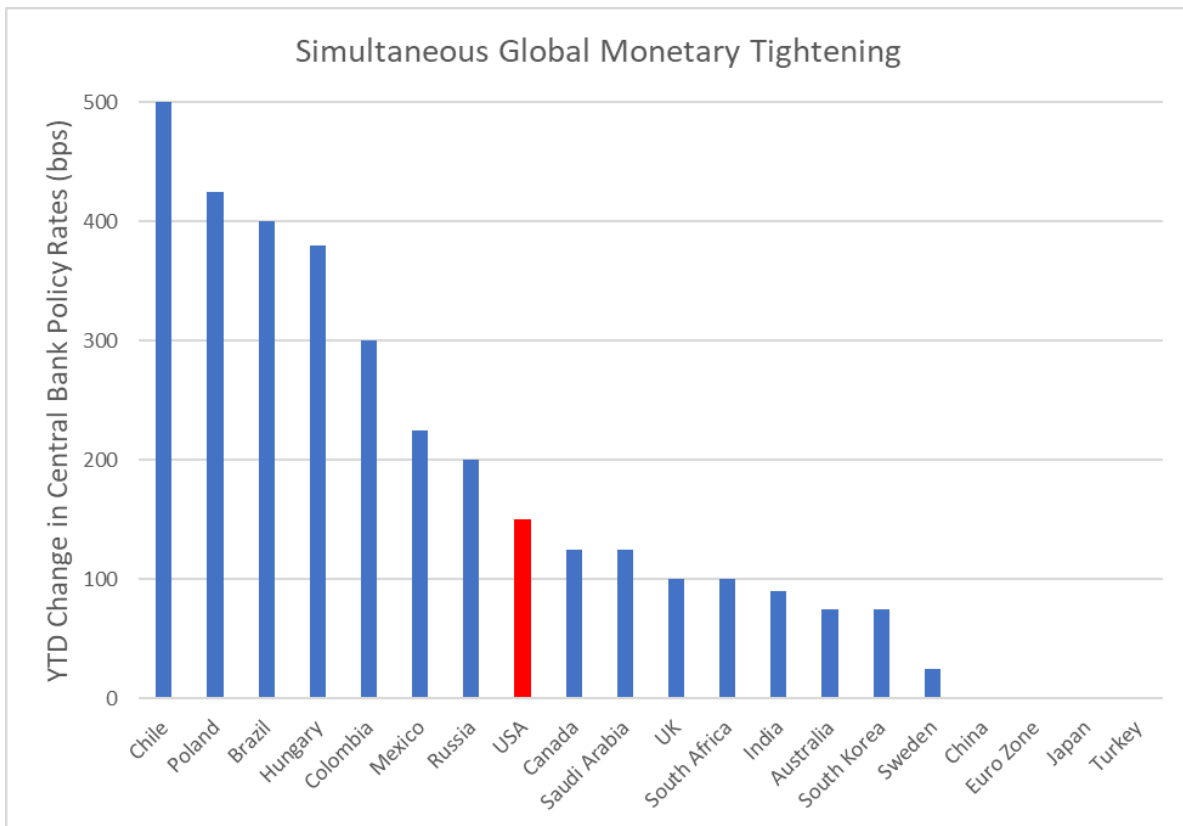


## Global Monetary Tightening Continues

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In my 2nd quarter review of the fixed income markets that we published in early July, I used the chart below to illustrate how many Central Banks had hiked policy rates significantly over the first six months of 2022. As you can see from the chart below, 16 of these 20 countries increased rates during the first half of the year, with 12 of them hiking rates by 100 bps points or more.



As of 6/30/2022  
Source: Bloomberg

I also pointed out at that time, the rate hikes were far from over as many countries were expected to continue to move rates higher in the second half of 2022 and possibly into 2023. These rate hikes, and the expectation of more hikes, were one of the main factors that led to the extremely poor performance in both the equity and fixed income markets during the first half of the year. The Bloomberg Aggregate Bond Index was down -10% while the S&P was down -20% over the first six months. This was one of the worst six-month periods ever for the fixed income markets. All types of fixed income experienced very poor returns. Short duration, long duration, high credit quality, low credit quality, Treasuries, mortgages, and corporates all declined significantly during the six-month period. To provide you with more details, below are returns for various fixed income and equity sectors/indices for the first six months of 2022.

**RETURNS AS OF JUNE 30**

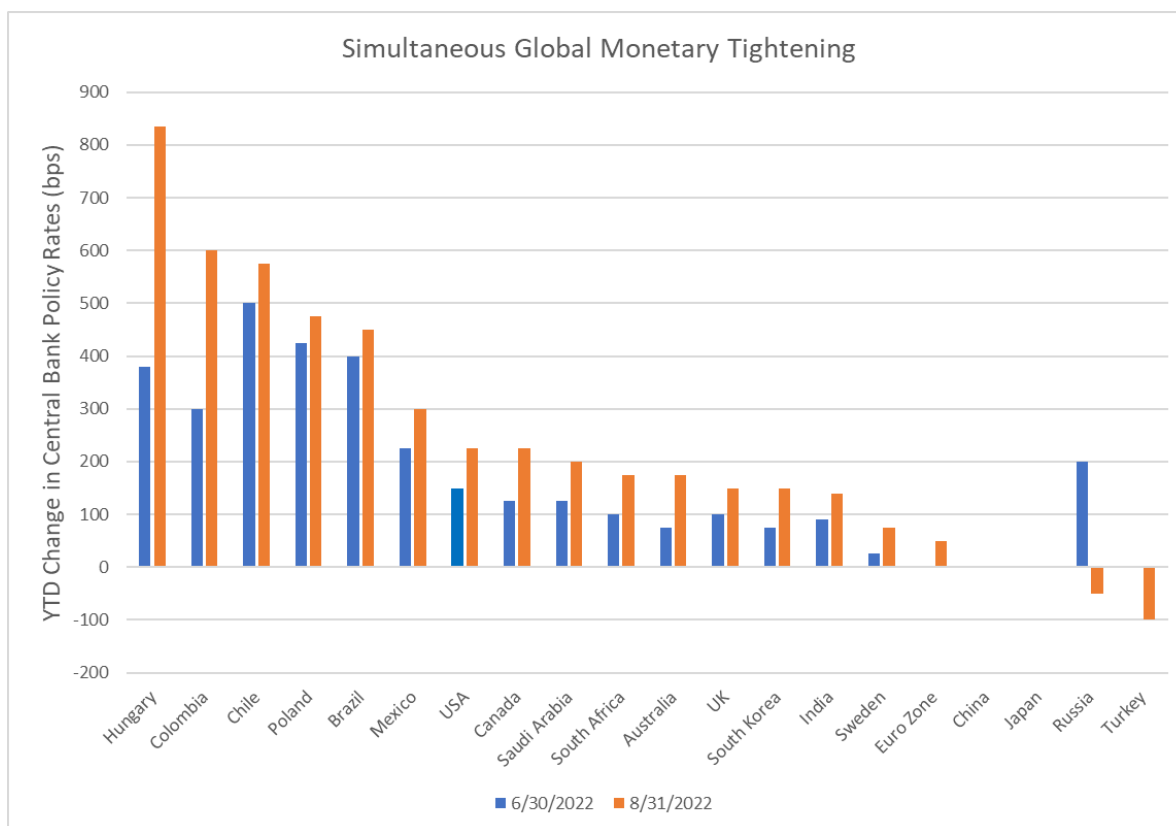
Fixed Income	YTD Return*
U.S. Treasuries	-9.1%
MBS	-8.7%
Inv. Grade Corporates	-14.4%
High Yield	-14.2%
Emerging Markets Debt	-20.3%

\*As of 6/30/2022  
Source: Bloomberg and JP Morgan

Equities	YTD Return*
S&P	-20.0%
Russell 2000	-23.4%
MSCI World Ex-U.S.	-18.8%
MSCI Emerging Markets	-17.6%

\*As of 6/30/2022  
Source: S&P, FTSE Russell, MSCI

As I mentioned, more rate hikes were expected, so below I have the updated rate hike chart as of August 31 with the blue lines showing rate hikes in the first half of the year (same as the chart above) and the orange lines showing year-to-date rate hikes as of August 31. Sixteen of the twenty countries moved policy rates higher over the last two months.



As of 8/31/2022  
Source: Bloomberg

A few highlights of the changes over the past two months are:

Canada and Australia	+100 bps
United States	+75 bps (+225 bps for the year)
Euro Zone, United Kingdom, Brazil, and India	+50 bps.

Russia and Turkey both cut rates recently and, while China kept their Policy Rate unchanged this year, they have lowered their Reserve Requirement Ratio due to weak economic growth. But despite these few outliers, the majority of countries continued to tighten in the 3rd quarter.

Not to sound like a broken record, but many countries will continue to tighten over the next several months, if not longer, to tame inflation. The U.S. will, most likely, hike the Fed Funds Rate by 50 or 75 bps at its next meeting on September 20/21 while the ECB is expected to also raise rates again in its next meeting on September 7. But, despite the continued tightening, the equity market in the U.S. rallied over the first two months of the 3rd quarter, high yield and emerging markets debt also moved higher, and investment grade fixed income markets stabilized. Below are the returns for the first two months of the 3rd quarter and for the year as of August 31.

### RETURNS AS OF AUGUST 31

Fixed Income	3QTD Return*	YTD Return*	Equities	3QTD Return*	YTD Return*
U.S. Treasuries	-0.9%	-10.0%	S&P	+4.8%	-16.1%
MBS	-0.3%	-9.0%	Russell 2000	+8.2%	-17.2%
Inv. Grade Corporates	+0.2%	-14.2%	MSCI World Ex-U.S.	+0.1%	-18.7%
High Yield	+3.5%	-11.2%	MSCI Emerging Markets	0.2%	-17.5%
Emerging Markets Debt	+1.9%	-18.8%			

\*As of 8/31/2022

Source: Bloomberg and JP Morgan

\*As of 8/31/2022

Source: S&P, FTSE Russell, MSCI

The reason for the better performance in the 3rd quarter is a combination of three factors:

- 1) By the end of June, the markets were already pricing in numerous future rate hikes.
- 2) The CPI data that was released in August was slightly improved.
- 3) Concerns about a recession were leading investors to believe that the rate hikes would end sooner than previously expected.

Without question, the main factor that will drive the Federal Reserve and other Central Banks' policy rate decisions will be the inflation data. Following from this, this inflation data and the scope of future rate hikes will be the main driver of returns in the financial markets. Markets currently appear to be pricing in slow growth with no recession in the U.S., and with inflation coming down enough over the next six months to enable the Fed to stop hiking rates late this year. While this scenario is plausible, we believe inflation will remain above 3% for at least the next year, making it tougher for the Fed to take a step back as soon as the market is expecting.

One other point to remember. The Fed is stepping up the reduction of its balance sheet in September. Instead of letting \$30 billion in Treasuries and \$17.5 billion in mortgage-backed securities roll off its balance sheet, the Fed will double the size to \$60 billion and \$35 billion, respectively. The impact of this is very difficult to predict since quantitative tightening (QT) has only been done once before in the U.S., and it hasn't been done to this magnitude. Some view the QT as equivalent to at least 50 bps of Fed Funds tightening. We will find out more soon.

Despite the better performance in both the equity and fixed income markets so far in the 3rd quarter, the financial markets will most likely remain very volatile over the rest of 2022. While we don't expect another period of horrible returns like the 1st half of this year, we do not believe that it is time to take big bets on equities, Treasuries, or credit-related fixed income. However, due to the wider credit spreads, we do currently have an overweight to investment grade credit in our fixed income portfolios, but we are being cautious on our exposures to the more cyclical industries. We will continue to monitor economic data and valuations to try to determine a better time to further increase exposure to credit in our portfolios, both for investment grade and high yield.

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DuPont Capital's President and CEO, Valerie Sill believes in education and diversity of experience as represented in our investment teams which are comprised of PhDs, engineers, medical doctors, and scientists. We believe their global expertise creates a portfolio implementation edge that benefits our clients.

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