

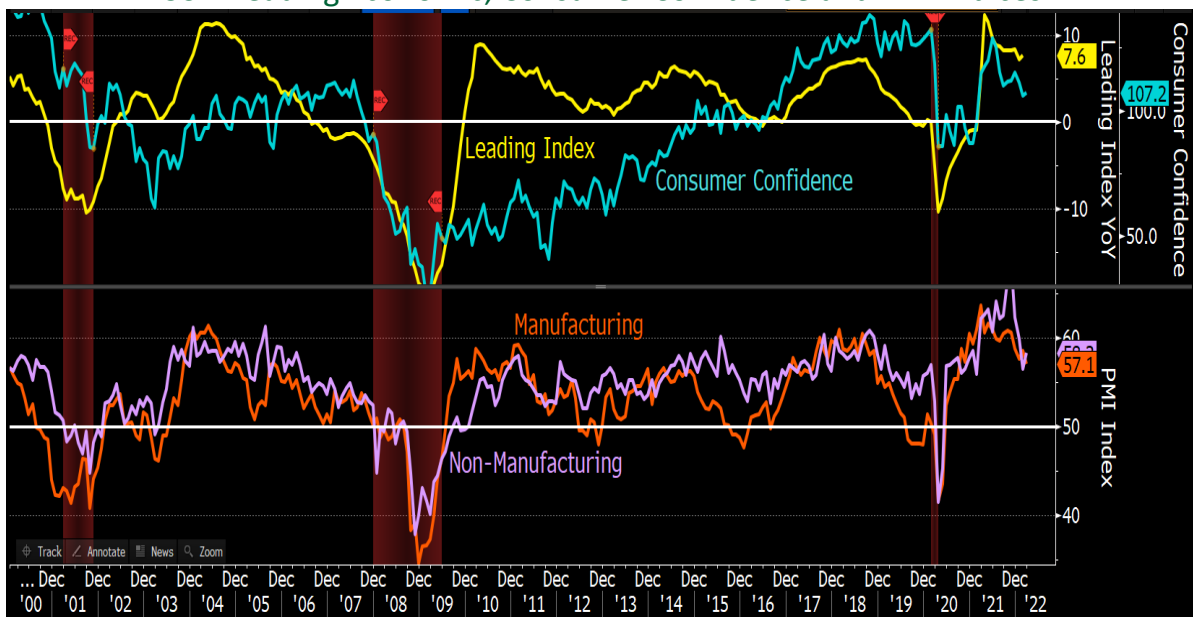
"A good decision is based on knowledge, not on numbers."

Plato

1. US ECONOMY

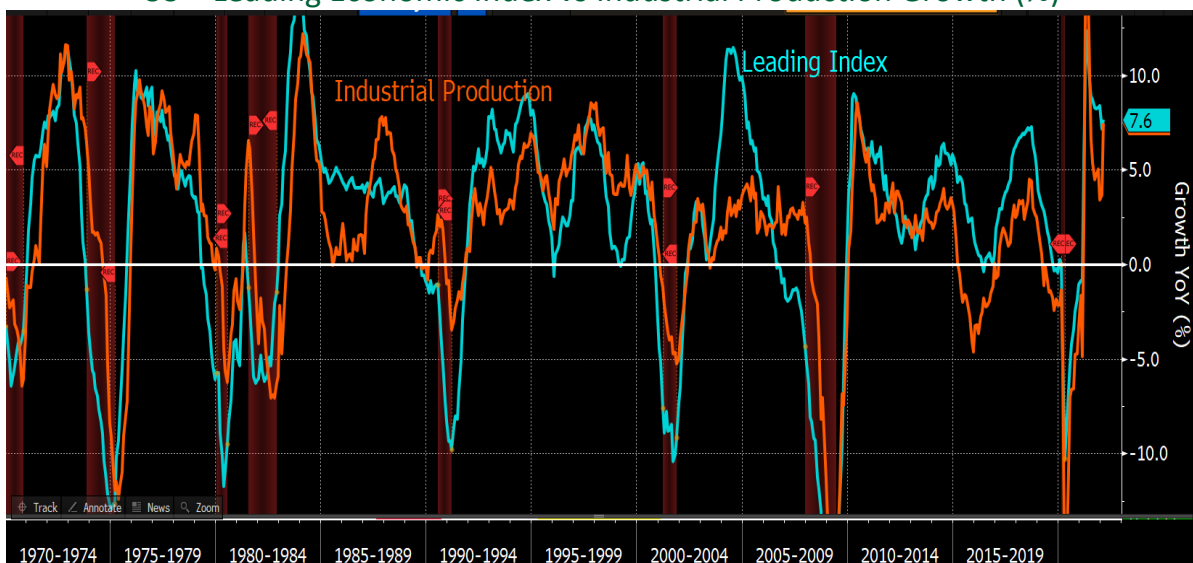
The following charts reflect on the US economic circumstances:

US – Leading Economic, Consumer Confidence and PMI Indices



The Leading Economic Index currently grows at an elevated level of more than 7%. Consumer Confidence, though, is not that strong and continues weakening. Whilst that is weakening, both the Manufacturing and Non-Manufacturing Indices are at good, constructive levels.

US – Leading Economic Index vs Industrial Production Growth (%)

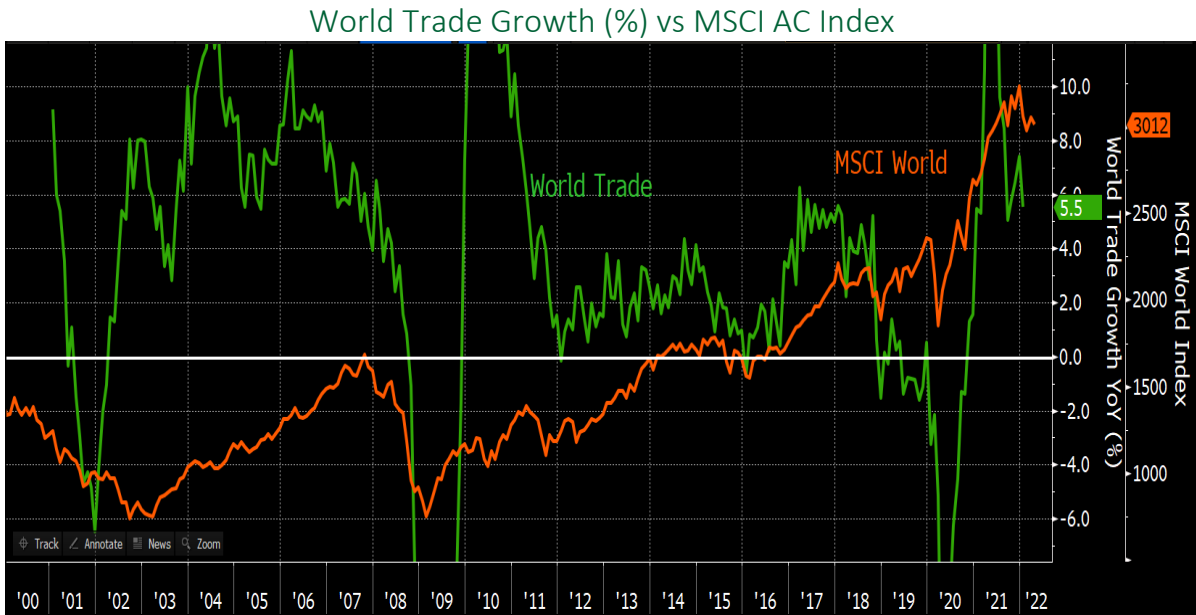


Industrial production has a strong correlation with the Leading Economic Index. Both are currently growing in excess of 7%. Overall, we do not yet see warnings of material economic risk from these charts.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2022. Past performance is not a guide to future performance.

2. WORLD TRADE

World trade is an indication of global economic health.



World trade is currently growing in excess of 5%. Seeing the correlation with share prices (the MSCI AC Index is shown in the chart above), it seems that world trade is continuing to support the global capital markets.



The nature of South Korea's exports make this data of particular interest. Because it is predominantly electrical and other equipment, machinery, ships, automobiles and parts, it is more sensitive to the economic cycle and therefore can serve as a leading economic tool.

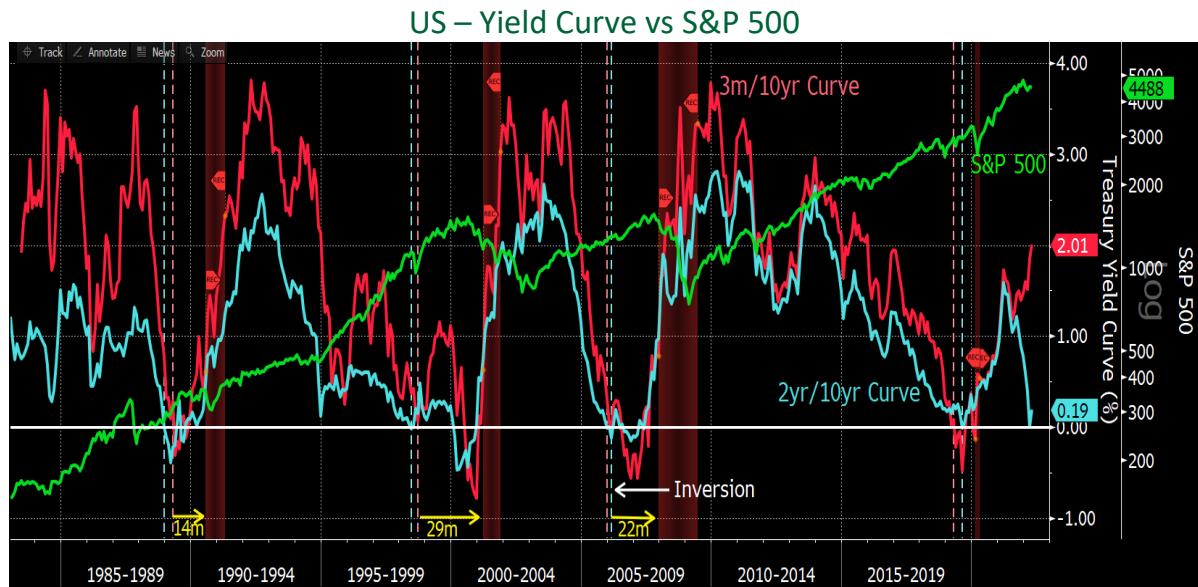
Whilst the growth in exports is currently dropping, it is still at elevated levels. It, therefore, seems that South Korean exports and world trade still indicate a healthy global economy.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2022. **Past performance is not a guide to future performance.**

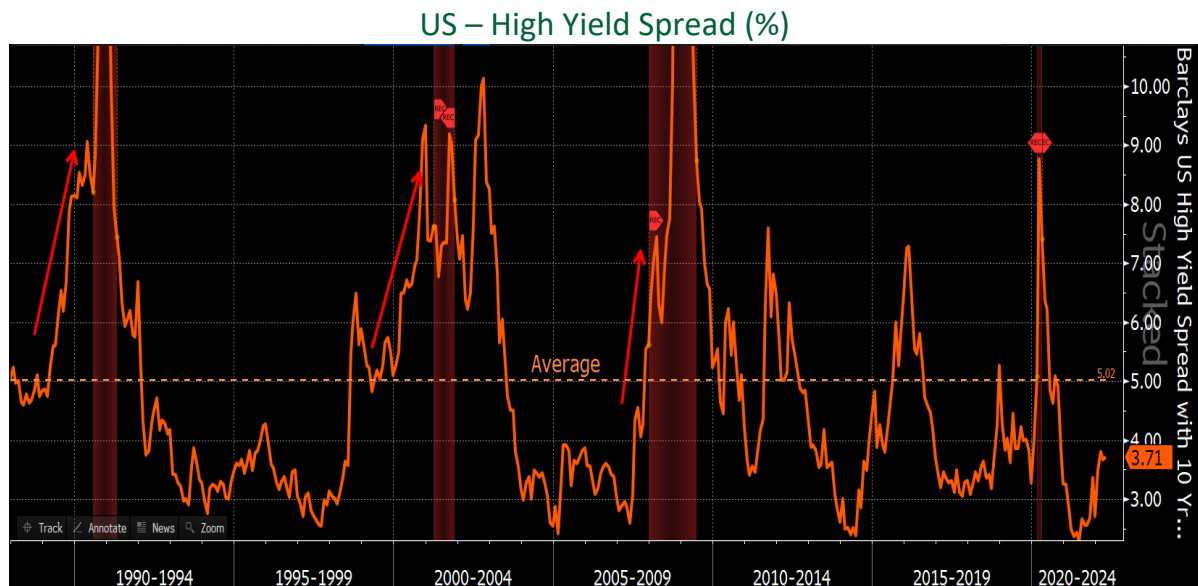


3. DATA TO MONITOR

The Ukrainian war obviously has major implications for capital markets, considering the effects on commodity prices, inflation, and economic growth in affected areas. These factors may further damage some existing weaknesses. The following charts reflects some of these potential concerns:



The US 2/10-year Yield Curve has last weak flattened. This is an early signal of an approaching recession. Interestingly, it has immediately started to steepen somewhat. Against this the very short 3m/10y Yield Curve has continued steepening, arguing against an upcoming recession. We would, though, be cautious to overly rely on the latter, seeing the early stage of the new tightening phase we are in currently with less effects on ultra-short rates.



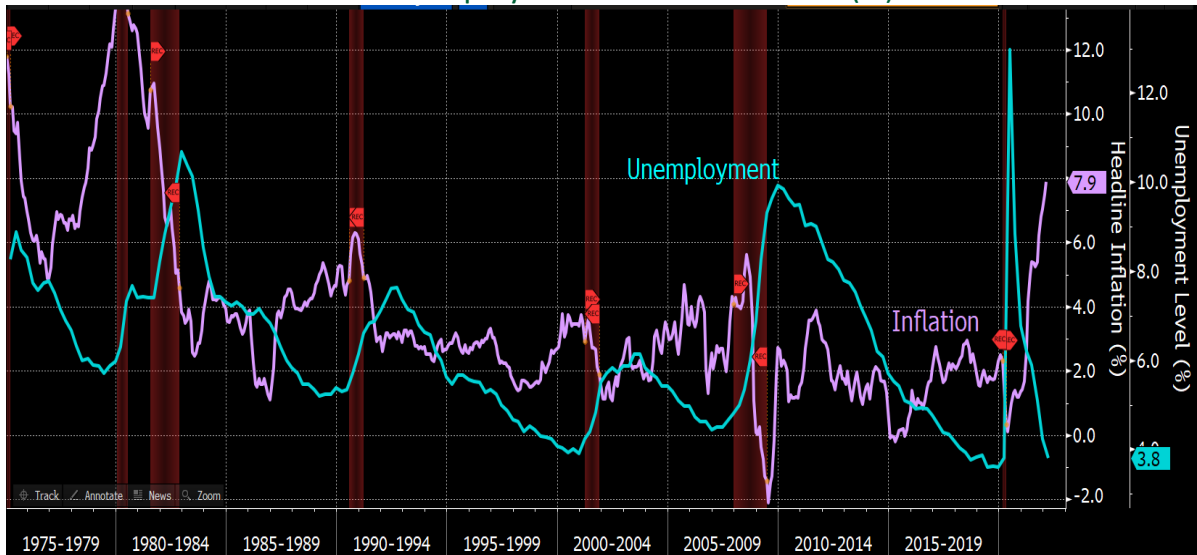
The High Yield Spread has turned upwards from its recent historically very low level. It is usually a bearish signal when these spreads are rising. Admittedly, though, it is the first time during this economic cycle that it rises, and it may turn out to be one of more similar events during economic growth cycles. Nevertheless, we take cognizance of this one.

Unemployment is currently at a very low historic level (see the chart on the following page). Such full employment levels have earlier preceded economic contraction periods. Along with this, Inflation is currently at a forty year high at 7.9% (also on the chart). Historically, full employment numbers coinciding with inflation in excess of 4% have been associated with recessions. This combination does not sit easy with investors currently.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2022. **Past performance is not a guide to future performance.**

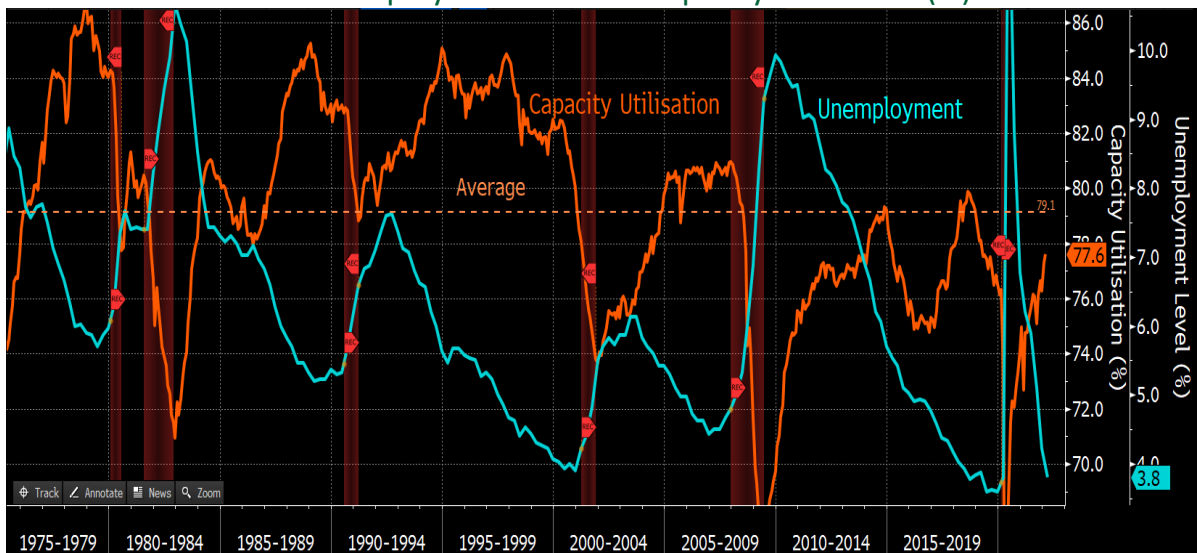


US – Unemployment Level vs Inflation (%)



We should also make the point that the US employment participation rate of 62.4% is still below the pre-Pandemic period of around 63% and up to 67% earlier, but it remains clear that the US labour market is currently very tight.

US – Unemployment Level vs Capacity Utilisation (%)



Whilst the labour market is so tight, overall production capacity utilisation is still well below average and can continue to support economic and profit growth. Whilst there is an inverse correlation between the two series, recessions have not earlier been associated with the current low level of capacity utilisation. Logically, the freeing up of supply constraints from the Pandemic can continue to support this aspect as well.

All-in-all, we take cognisance of the warnings in the capital markets that the risks for a potential recession are growing and should be carefully monitored.

4. US INFLATION

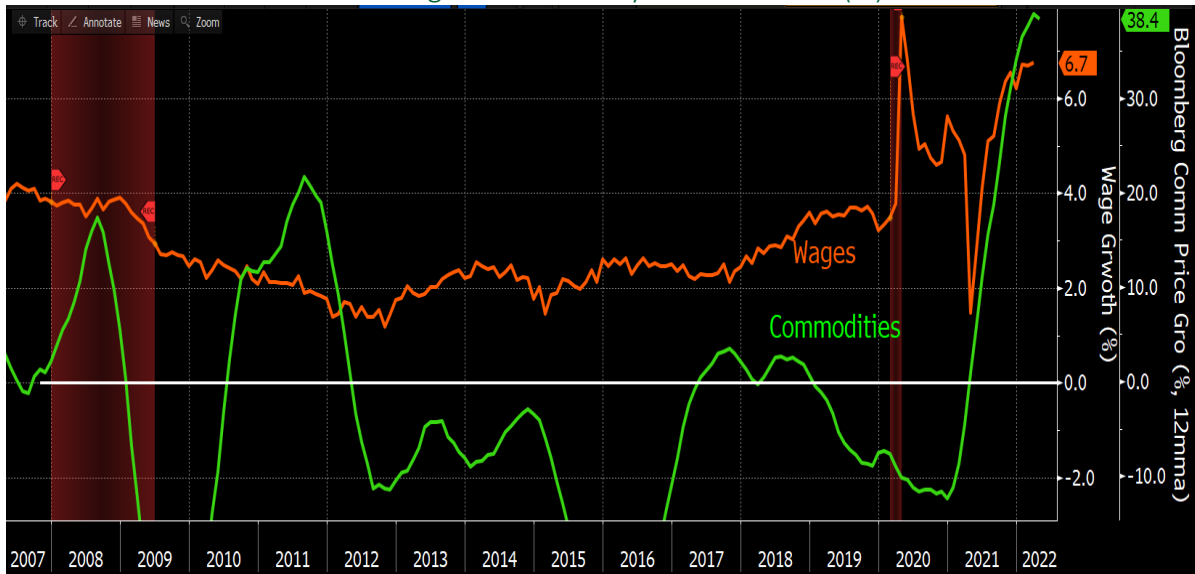
The rampant US inflation has many causes, predominantly from a cost-push perspective rather than from a demand-pull perspective. Indications of the cost increases in February were fuel oil (+44%), used cars and trucks (+41%), natural gas (+23%), meat (+13%), bakery products (+8%).

The following chart depicts two material cost items of many businesses:

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2022. **Past performance is not a guide to future performance.**

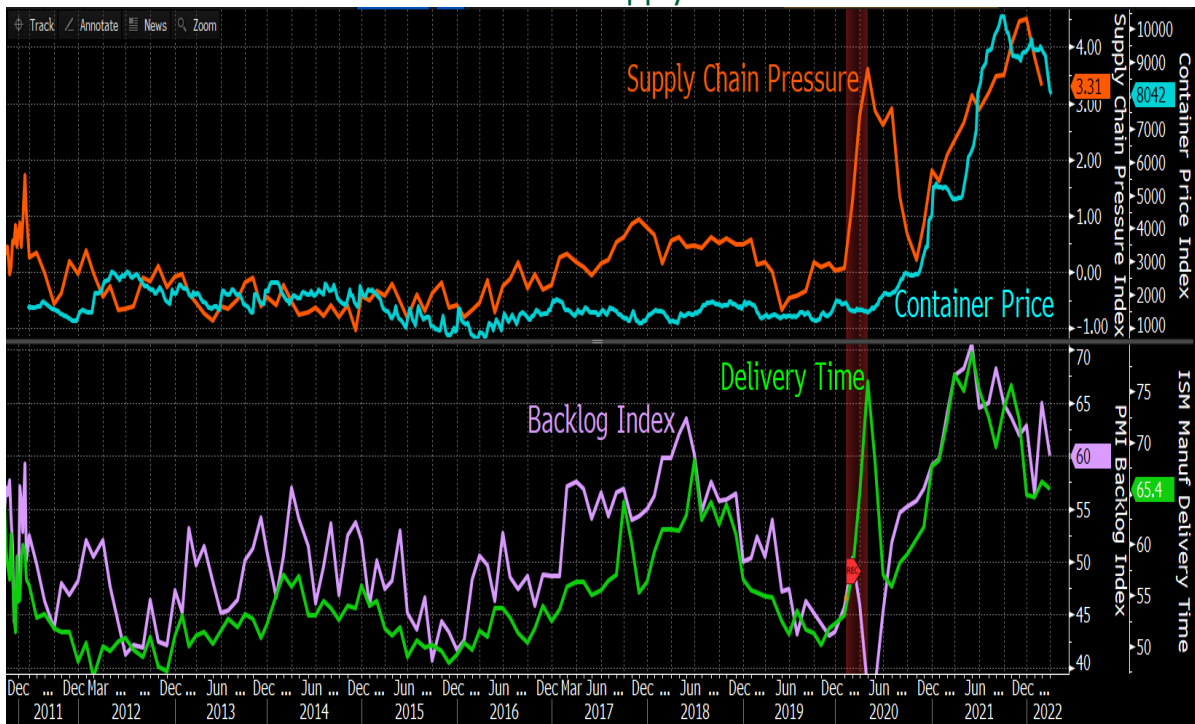


US – Wage & Commodity Cost Increases (%)



Wage and Commodity price increases are currently at record levels (government handouts in 2020 are included in wages). Whilst the former follows from the tight labour market, the latter follows predominantly from the Pandemic inflicted supply chain, materially worsened by the Ukrainian war issues. It seems the commodity price growth has matured at the elevated level of a third. On the wage front, all wages as a ratio of GDP (54.4%) currently remain below its long-term average of 55.2%.

Pandemic Inflicted Supply Chain Indices



The silver lining on the Pandemic inflicted cost pressures is that the worst seems to be over, and that material improvements are already in process. Whilst they are still at elevated levels, the Composite Container index has already dropped by a fifth and the Supply Chain Pressure Index by over a quarter since their respective peaks. The Backlog Index has dropped by 15% and the ISM Manufacturing Delivery Time Index by almost a fifth. The Oil price has also dropped by over a fifth. These are promising signs of lower cost-push inflation on its way.

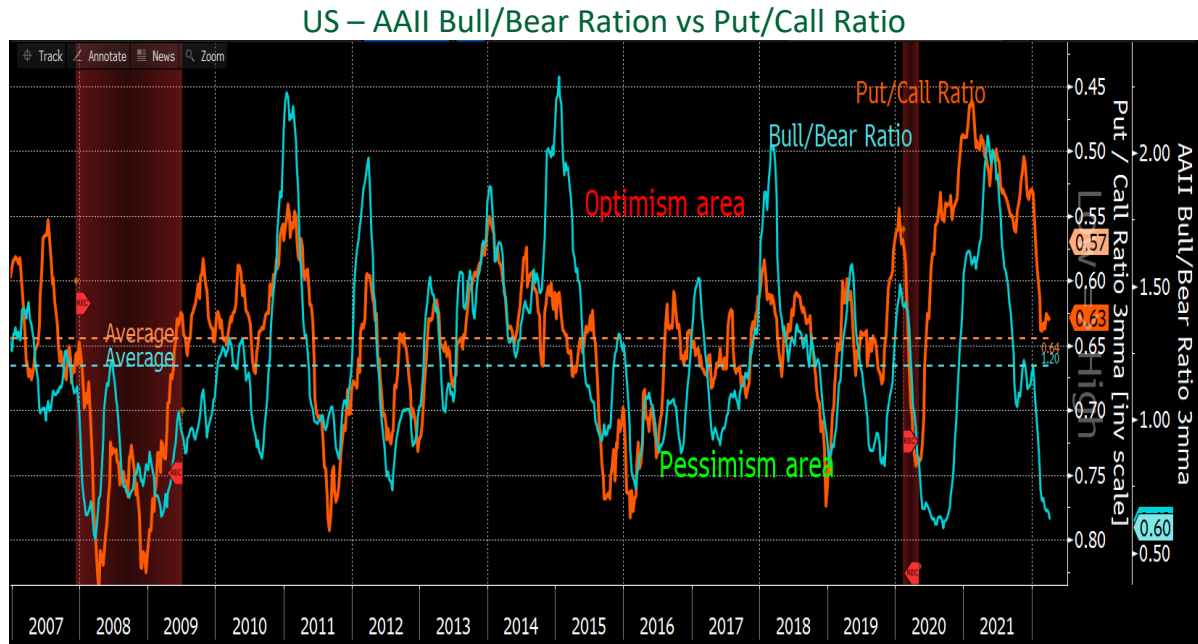
Clearly, the war is a material inflation factor, especially in the context of Energy and Food. In our view the inflation challenges we face are in process of becoming more of a war issue and less of a supply chain issue.

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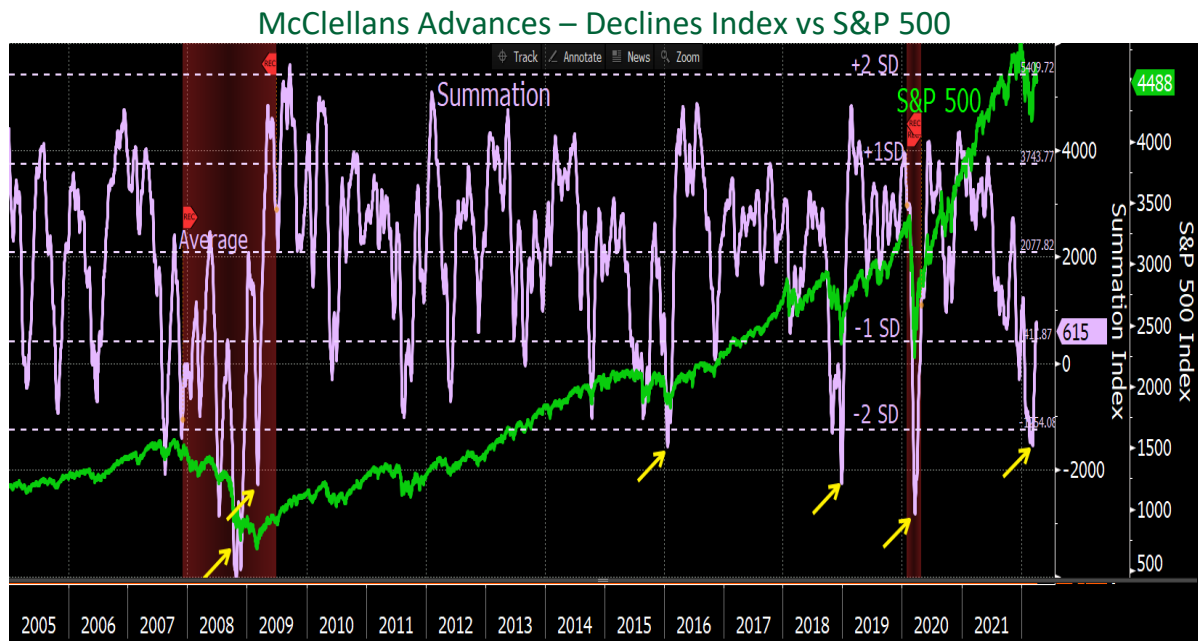


5. TECHNICAL PICTURE

For those technically minded, the S&P 500 index has crossed upwards through both its 50- and 200-day moving averages following the weak first quarter. This is a positive signal.



As reflected in the Bull/Bear Ratio in the above chart, the retail investor market is currently as bearish as it was with the Financial Crisis and the Pandemic, rather reflecting a Buy signal. Against this, as reflected by the Put/Call ratio, the institutional market is currently neutral, holding their nerve despite the war.



The above Advance/Decline Index is currently below average, but increasing from its recent oversold position. It has quite a good record on indicating Buy opportunities (the yellow arrows in the above chart).

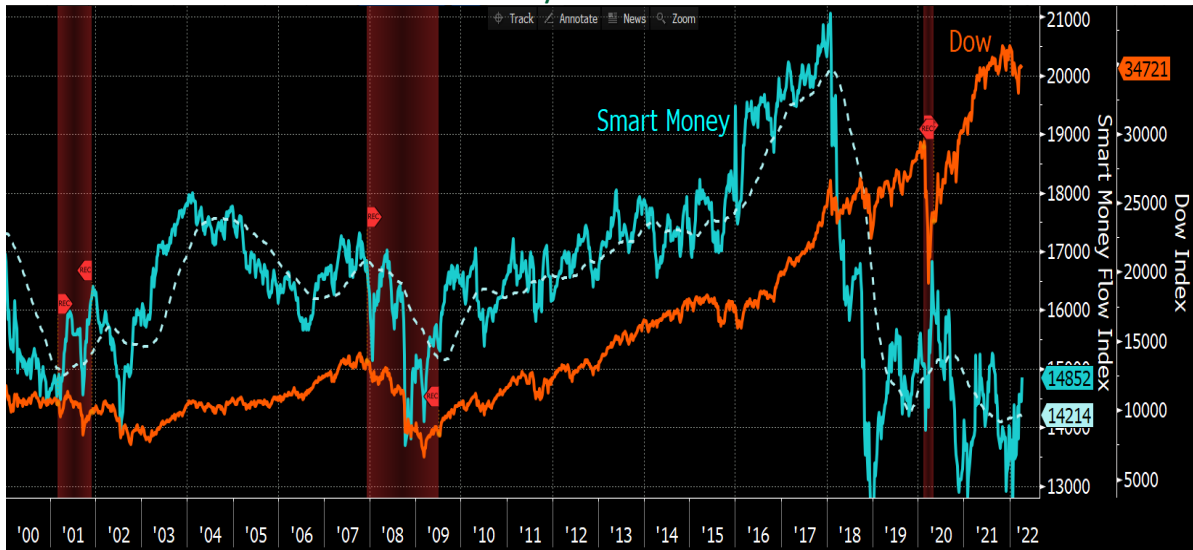
The RSI technical Overbought/Oversold Index is currently on a neutral level.

The following chart reflects the stock market activity of professional traders that utilize opportunities at the opening and the closing sessions every day:

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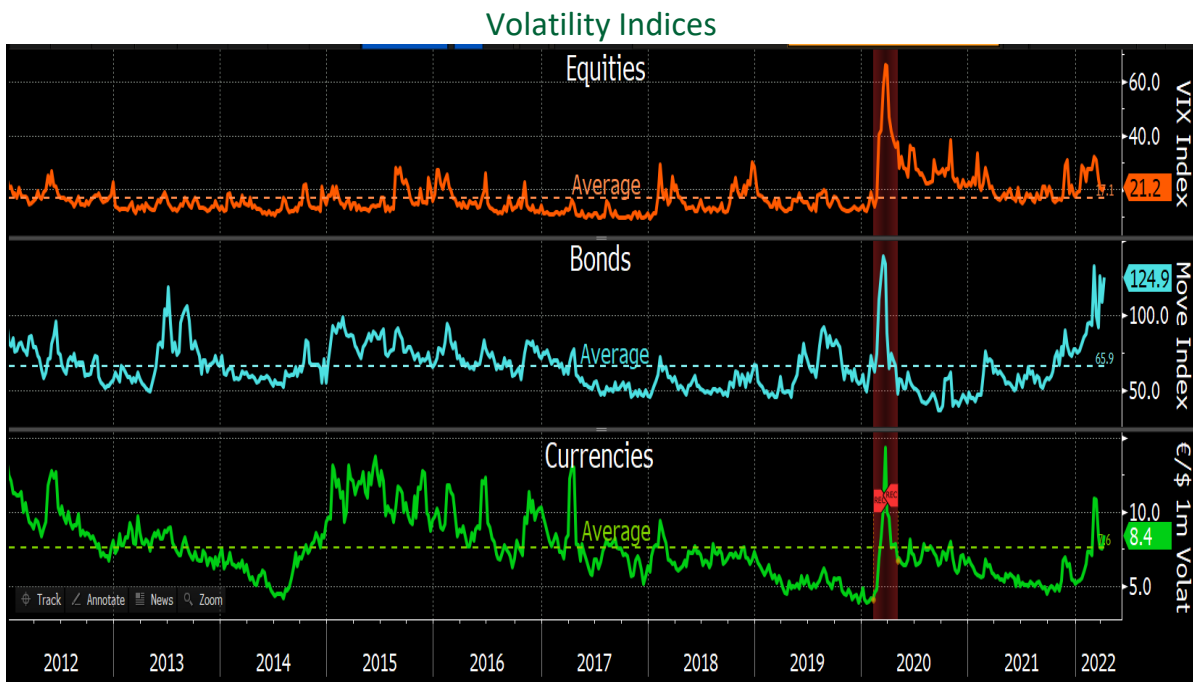
Smart Money Index vs Dow Index



The Smart Money Index has been picking up over the recent weeks.

6. VOLATILITY

The following chart reflects volatility indices in Equities, Bonds and Currencies:



Volatility in the Equity and Currency markets are currently close to neutral. Volatility in the Bond market is at elevated historical levels, reflecting high nervousness on the inflation and economic fronts.

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