WEEKLY INVESTMENT **UPDATE** 7/8

Tables like the one below are often pulled out during crisis events to show that any consequent market weakness is usually short-lived and should be used as a buying opportunity. Averages can sometimes be deceiving. The grey lines in the table below highlight three occasions when a major geopolitical event was not followed by any quick market rebound. The key similarity in all three cases was that the crisis event occurred during a period of economic contraction where economic and profit fundamentals were already in decline. It's always tempting to prognosticate how a headline event may change the complexion of the market, but historic evidence would suggest that exogenous inputs do more to reinforce trends already in place rather than change the game.

S&P 500 Performance
Around Select Geopolitical/Military Events

Date	Geopolitical/Military Event	Total Return After Event			
		+1Mo	+3Mos	+6Mos	+12Mos
12/7/1941	Pearl Harbor	-1.0%	-10.2%	-7.2%	7.3%
10/31/1956	Suez Canal Crisis*	-1.1%	-1.0%	2.2%	-6.4%
10/20/1962	Cuban Missile Crisis	8.7%	18.4%	26.7%	36.3%
10/17/1973	Arab Oil Embargo*	-5.3%	-10.7%	-12.6%	-32.6%
11/3/1979	Iranian Hostage Crisis	3.7%	13.8%	5.9%	32.8%
12/25/1979	U.S.S.R. In Afghanistan	6.0%	-6.7%	11.5%	33.1%
8/3/1990	Iraq Invades Kuwait	-6.1%	-8.7%	1.3%	16.2%
1/17/1991	Gulf War	12.9%	20.0%	18.1%	31.8%
8/17/1991	Gorbachev Coup	0.3%	0.0%	8.6%	12.5%
2/26/1993	World Trade Center Bombing	1.2%	3.0%	5.5%	8.1%
9/11/2001	9/11*	0.6%	4.4%	7.7%	-15.5%
3/20/2003	Iraq War	2.2%	14.2%	19.3%	28.9%
	Average	1.8%	3.0%	7.2%	12.7%

*Economy was in a recession at some point during the measurement period.

Source: Strategas Research Partners

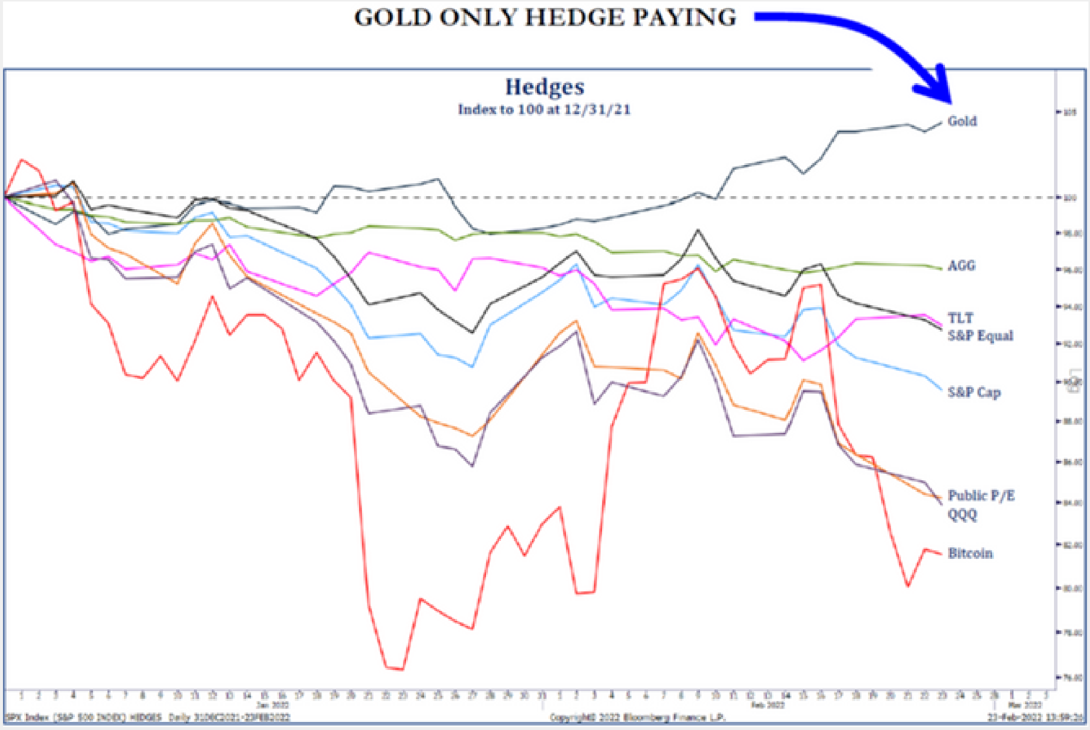
We will briefly discuss five trends already in place prior to the Ukraine invasion that have only been reinforced in recent market action. Firstly, the major market story of 2022 remains higher bond yields. The first graph below shows how the decline in U.S. bond yields in response to the geopolitical uncertainty has been minimal by historic standards. Indeed, this current equity market correction is the first in the QE period (since 2009) that has not been accompanied by a sizeable rally in bonds thereby hurting the performance of most balanced portfolios. The second chart below shows the decline in global bond yields (green numbers) across the maturity spectrum since the beginning of the year. Government bonds on a global scale have not provided the historic protection normally afforded in such periods of geopolitical tension and the path of least resistance still seems to be higher.

Source: Bloomberg finance

Government Bond Yields Period January 3rd 2022-February 25th 2022										
Country	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
United States	0.26%	0.48%	0.72%	0.80%	0.75%	0.51%	0.41%	0.34%	0.31%	0.26%
Canada	0.39%	0.42%	0.48%	0.59%	0.52%	0.48%	0.48%	0.48%	0.56%	0.50%
Brazil	0.87%	N/A	0.56%	0.68%	0.36%	0.23%	0.42%	0.45%	0.42%	0.43%
UK	0.58%	0.72%	0.43%	0.52%	0.50%	0.43%	0.46%	0.49%	0.51%	0.49%
France	-0.02%	0.00%	0.05%	0.35%	0.47%	0.43%	0.50%	0.46%	0.30%	0.26%
Germany	-0.08%	-0.06%	-0.02%	0.22%	0.38%	0.41%	0.37%	0.35%	0.27%	0.22%
Italy	0.05%	0.15%	0.11%	0.17%	0.32%	0.48%	0.68%	0.63%	0.44%	0.42%
Spain	0.14%	0.05%	0.07%	0.60%	0.67%	0.74%	0.65%	0.62%	0.47%	0.40%
Portugal	0.20%	0.14%	0.36%	0.35%	0.39%	0.57%	0.61%	0.59%	0.81%	0.44%
Netherlands	-0.09%	-0.10%	N/A	0.40%	0.46%	0.50%	0.43%	0.44%	0.34%	0.25%
Greece	0.04%	0.10%	0.08%	0.42%	0.68%	0.88%	N/A	1.25%	1.14%	0.96%
Japan	0.05%	0.03%	0.00%	0.07%	0.07%	0.12%	0.14%	0.14%	0.22%	0.24%
Australia	0.02%	0.05%	0.45%	0.62%	0.75%	0.62%	0.59%	0.56%	0.37%	0.33%

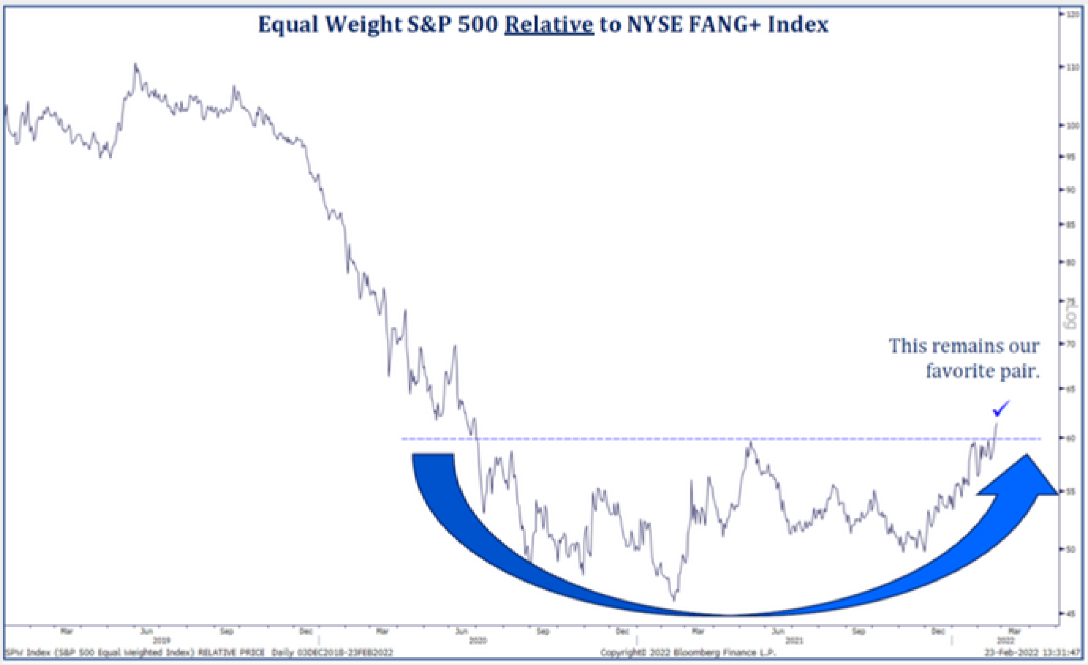
Source: Strategas Research Partnners

Secondly, the price of Gold has been quietly firming during the past few months despite higher nominal yields. The events in Ukraine appear to have accelerated this trend with a notable price breakout last week. Again, interesting to note that Gold is currently the only standard portfolio hedge that has actually worked this year (chart below).



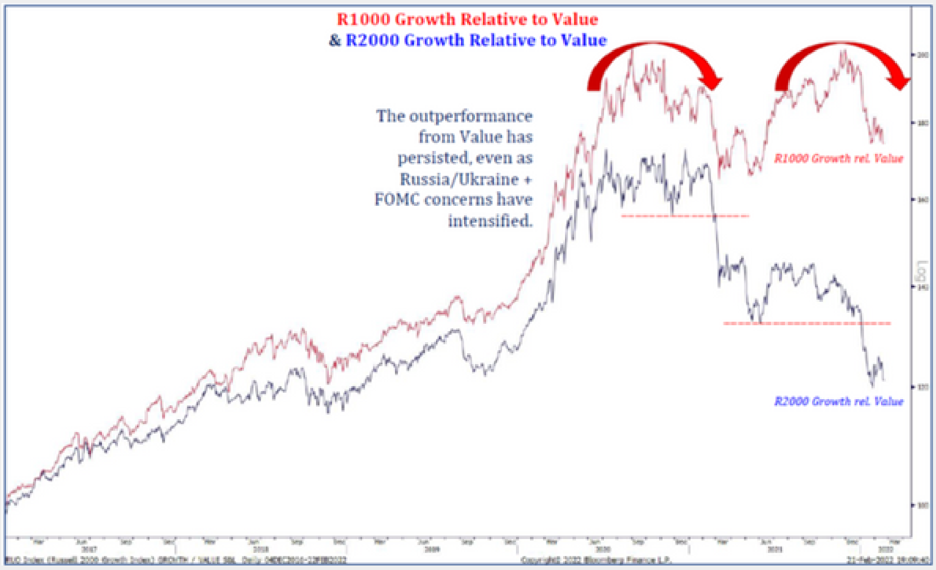
Source: Bloomberg Finance

Thirdly, the relative performance of the average stock (equal weighted S&P) versus the mega cap Technology darlings (FANG+ Index) bottomed as early as the beginning of 2021 and has been in a period of strong relative performance since early December (chart below). We have been pointing out for some time that the greatest investment risk had become concentrated in the largest index weights due to their immense popularity and stretched valuations. This story still holds and is gaining momentum.

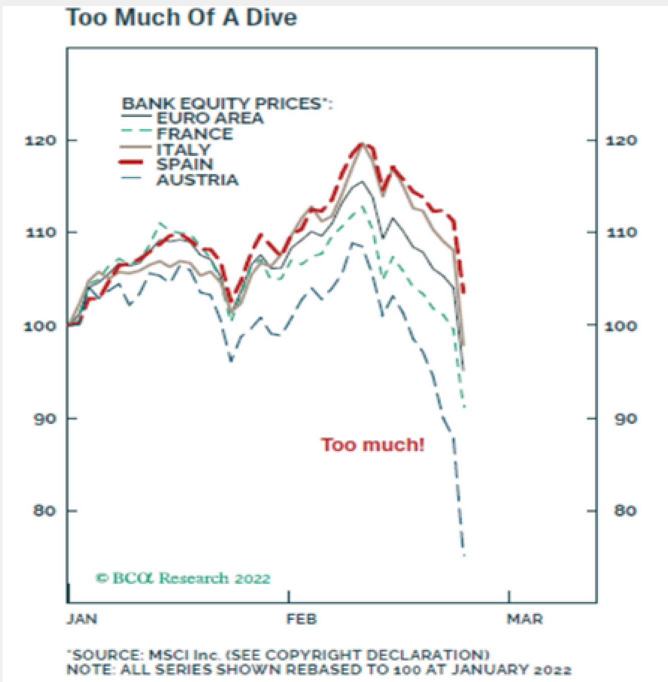


Source: Ned Davis Research

This latter point is closely linked to the continued outperformance of Value stocks versus Growth stocks. The outperformance of Value versus Growth was underway well before the market priced in an aggressive 2022 FOMC or a major Russia/Ukraine event… that trend has only continued. The first chart below shows in the U.S that small cap Value has been outperforming since the beginning of 2021. However, it has taken longer for the extreme investor faith in the larger capitalised Growth darlings to be shaken. As a side note, a very recent exception to this Value outperformance has been the sharp sell-off in European financials on concern over their Russian exposure. More on the current investment opportunities will be written in following updates, but in brief we view the extreme correction in European financials as overdone (second chart below).

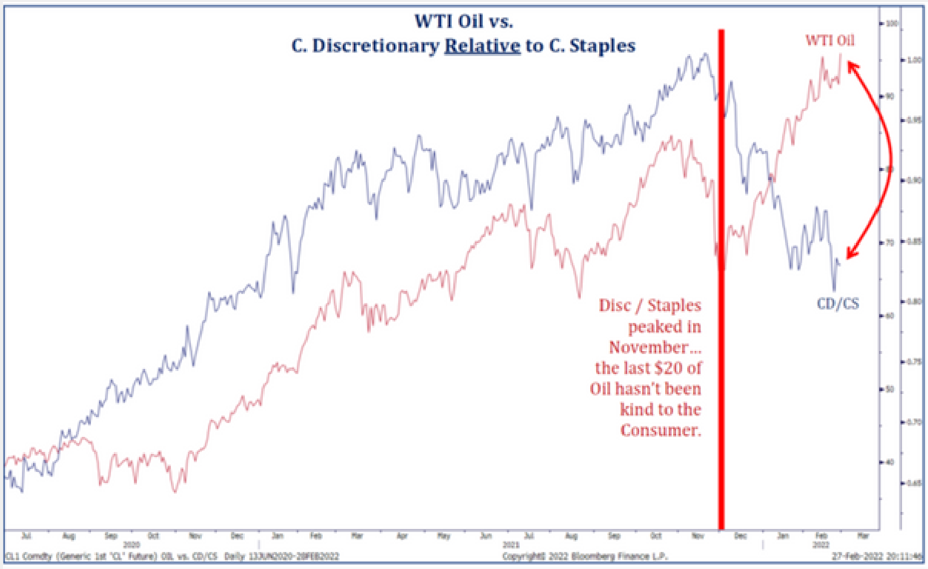


Source: Bloomberg Finance



Source: Strategas Research Partners

Finally, oil has been in a strong uptrend for most of 2021 though market concerns over its impact on discretionary consumer spending only commenced in Q4 of last year. Both of these trends have accelerated with the recent events in Ukraine (chart below). Consumer Discretionary continues to underperform the more defensive Consumer Staples sector for the first time since the pandemic induced market sell-off in March 2020. This performance trend bears close attention given the importance of consumer spending for most developed economies.



Source: Bloomberg Finance

At this point, the extreme pessimism evident in many surveys and market indicators is the strongest argument in favour of a near-term market rally attempt. The extreme optimism of investment advisors as recent as Q4 of 2021 has been turned on its head. The chart below shows one such measure of investor pessimism which is near the lows historically associated with market rallies.

Source: Bloomberg Finance

The sustainability of any market attempt at a rally will be determined by watching two key indicators - credit spreads and market breadth. The failed market bounce from the January 24th lows to February 9th was not accompanied with any improvement in credit - spreads continued to widen (chart below). Any rally here without a marked retreat in spreads has to be viewed with extreme skepticism. Market breadth (% of securities confirming the index trend) has been mixed of late with many sectors following divergent paths. This will need to improve significantly to establish a high degree of confidence that a medium-term market bottom has been established.

Source: Bloomberg Finance

DISCLAIMER

This report, including any attachments may contain confidential and privileged material; it is intended only for the person to whom it is addressed. If you are not the intended recipient (or have received this e-mail in error) please notify us by email (info@m-partners.nl) immediately and destroy this e-mail. Any unauthorized copying, disclosure or distribution of the material in this e-mail is strictly forbidden.The sender cannot guarantee the security of electronic communication and is not liable for any negative consequence of the use of electronic communication, including but not limited to, damage as a result of in or non-complete delivery or delay in delivery of any e-mail.

Mpartners is an investment firm, licensed in accordance with article 2:96 of the Dutch Financial Markets Supervision Act ("FMSA", Wet op het Financieel Toezicht). Based on this licence, Mpartners is permitted to perform investment services as referred to in article 1:1 FMSA, subparagraph a, c and d of the definition of the 'provision of an investment service' (verlenen van een beleggingsdienst). Consequently, Mpartners is subject to the supervision of, and registered with, the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiele Markten) and the Dutch Central Bank (De Nederlandsche Bank N.V.).

Mpartners is seated in Amsterdam and registered at the Amsterdam Chamber of Commerce under number 34389387 0000.