



MARKET REPORT

Tuesday 5th July 2022

Market Headlines

The Reserve Bank of Australia raised interest rates by 0.5% to 1.35%, with inflation expected to peak later this year.

China's Caixin services purchasing managers' index rebounded to 54.5 in June, well ahead of the 47.3 forecast as covid restrictions eased. Above 50.0 indicates expansion.

Japan's services business activity index rose to 54.0 in June, up from 52.6 in May.

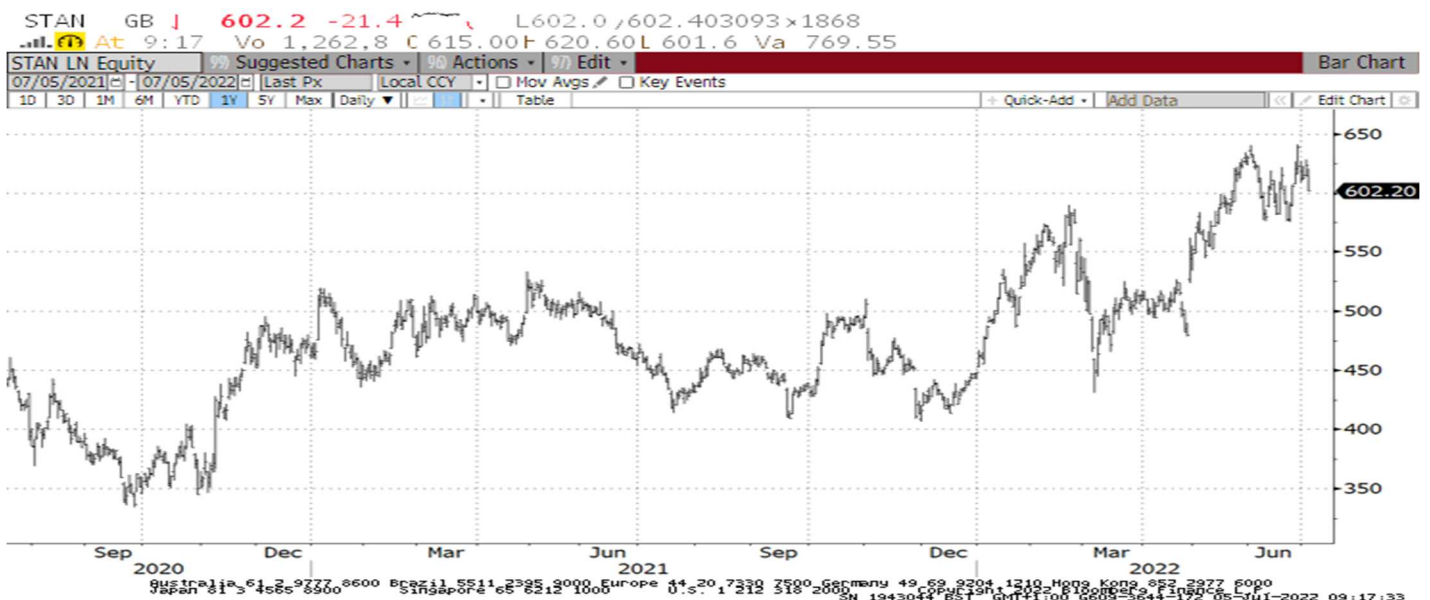
US markets were closed for Independence Day, the Nikkei 225 rose 1.0%, the Hang Seng gained 0.3%, whilst the Shanghai Composite was flat. European markets were mixed.

Investments on our buy list

Standard Chartered plc (STAN) – broker KBW cut the stock to 'market perform' from 'outperform' today, with a price target of 700p. This is in contrast to Bank of America who yesterday increased their target to 800p and reiterated its 'buy' rating.

STAN has strongly outperformed the market and the U.K. bank sector since the start of the year, rising by more than 30% in absolute terms. Over 70% of the bank's earnings come from Asia so its shares performed poorly last year as China led a slowdown in the region and Asian equity markets underperformed.

We continue to see excellent growth potential for the bank based on the favourable economic dynamics of Asia and are more comfortable with the 800p target in the medium to longer term. In the very short term, the stock is losing momentum and due for some consolidation. Expect the likes of Lloyds, Barclays and NatWest to outperform it during this period.



Redwheel Global Emerging Markets Fund (formerly RWC) – after a torrid 18 months the fund is showing signs of bottoming out/turning bullish.

The fund's main geographic exposure is China (35%) and its main sector exposure is Internet (23%). Chinese internet stocks led the bear market in Emerging Markets following a crackdown on Technology groups by the Chinese government. Chinese tech stocks are now attracting buyers again due to reassuring messages concerning regulation, resilient earnings and beaten-down valuations. The market trend is turning bullish.



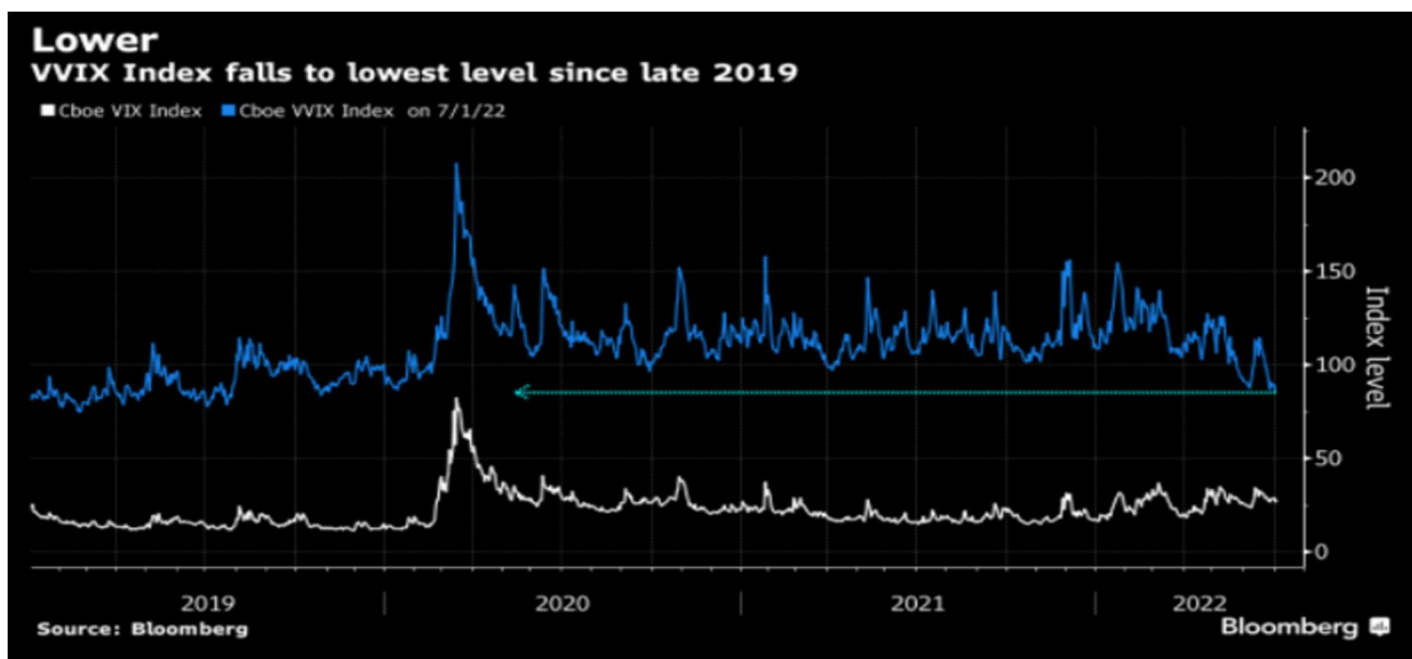
Source: Bloomberg

Chart of the Day

European equities followed U.S. equity futures higher this morning as talks between the U.S. and China on removing some trade tariffs boosted optimism for an easing of inflation. Contracts on the S&P 500 and the Nasdaq advanced at least 0.3% each as U.S. markets were set to return after the Independence Day holiday.

U.S. and Chinese officials discussed economic sanctions and tariffs amid reports that Washington may roll back some of the trade levies imposed by former President Donald Trump. Anything that helps ease inflationary pressures is viewed positively in the face of possible recession coupled with monetary tightening to combat elevated inflation.

Market signals are looking a little more positive. The VVIX – a volatility of volatility measure that represents the expected volatility of the 30-day forward price of the CBOE Volatility Index (VIX) – fell to its lowest level since 2019. Lower volatility is synonymous with rising markets.



Source: Bloomberg

Recap of yesterday

AO World fell 18.2% after the Sunday Times reported that Atradius, a credit insurer, had cut its credit cover for AO's suppliers. The company later confirmed one insurer to some suppliers had rebased cover, it was trading in line with expectations.

Grafton dropped 7.7% as it was announced CEO Gavin Stark would step down on 31 December, a search for his successor was underway.

Spirax-Sarco Engineering added 0.7% as it said it was in talks to purchase European industrial electrical heating group Vulcanic for €262m.

Wizz Air dropped 3.9% as it said it carried 4.3m passengers in June, nearly triple the 1.6m in June 2021. It had signed a memorandum of understanding with Airbus to explore the potential for hydrogen powered aircraft operations.

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