

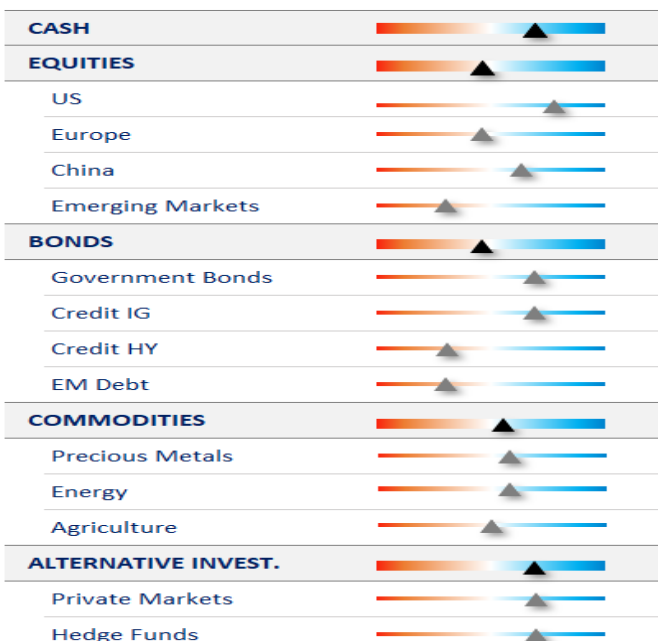


The Omega Wealth Management August Investment Committee reduced its commodity exposure and keep an overweight cash and slightly underweight equities exposure. CTA and private markets are effective diversifiers and return generators. Headline inflation made its peak in the US, but the price pressures will remain fierce in Europe. The rate normalization led by the Fed is well advanced and is orchestrated to provide a tight but not too tight “Goldilocks tightening”. Higher rates are expected in September but the FED repurchase program (REPO) provides tight but sufficient liquidity to the system. The July rally has improved markets to exit progressively from risk-off conditions. The former being practically reflected with more market exposure in our DAO active program and the later with a high cash position in our overall asset allocation (Graph 1).

Progressive healing of Risk-Off conditions

Lower WTI price have softened US CPI inflation in July (8.5% YoY). Equity index volatility is abating and growth stocks are outperforming value stocks, reversing the negative trends felt in H1. Other risk indicators such as earnings guidance and aggregate macro surprises are bottoming out. The Risk-Off regime that started with the war Ukraine and its global consequences for economies and financial markets is progressively healing. On the monetary policy front, central banks are on inflation combat mode with the risk of slowing the economies. Although headline inflation will decline, inflation excluding food and energy will remain sticky. Instead of accusing blindly central banks of lagging inflation, we recognize the success of the Federal Reserve Board in achieving higher rates while supporting financial stability. Practically, at the same time it is moving rates, the Fed is providing tight but sufficient liquidity via a buyback program in the REPO system (<https://lnkd.in/g2s4Ukdf>). This is the ultimate art of central banking in a context of high perceived risk and confidence fragility. In the meantime, the bond market is pricing FED rate cuts (see Graph 2) as soon as February 2023

Graph 1: Omega tactical views (3-6 months)



Graph 2: Fed funds rates cut expected in February 2023



DAO: a case for an “equitization”

Dynamic Asset Allocation (by Omega) is a factory of tactical investment solutions allowing us to build a portfolio immune to the swings in the business cycle (with a positive YTD return). Inflation deceleration at least in the US (CPI index second derivative) suggests a normalization path ahead. Positive flows of funds and lower cost for hedging also lend support to equity exposure. Additionally, a buoyant US labor market is lowering the odds of a prolonged recession. Should this scenario unfold, there is a case for a measured *equitization* (i.e. more equities) to our core DAO. One of the ways to do so is to add exposure to sectors at the core of the ongoing economic transition such as robotics and AI, firms that will bridge the energy gap and global leaders than are quasi-monopolies.

Tactical positioning

Reducing Agriculture Commodity exposure. The decision was to take profit in a context of technical chart deterioration since the peaks in May.

A Quality spin vs growth style remain : cash rich firms with stable earnings and robust business models can outperform while inflation, risk of recession, prospects of higher rates are headwinds for average growth stocks.

South East Asia equities with diversified instruments and long/short Greater China fund. **China equities** remain in favor compared to Europe with the rationale of better growth stimulation response in China.

A selection of CTA have demonstrated their diversifying power in the midst of the Ukraine crisis.