End cycle turbulence

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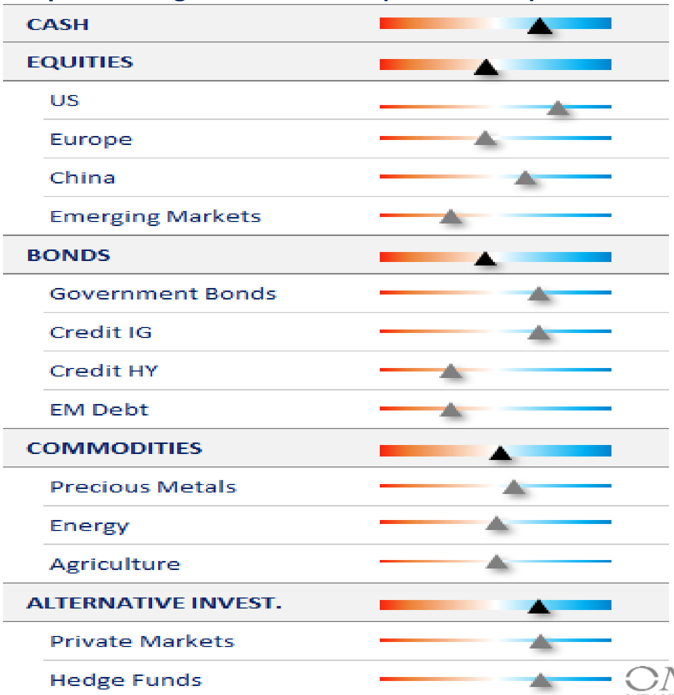
The Omega Wealth Management September Investment Committee maintains a prudent asset allocation stance (Graph1) while keeping an active allocation within the allocation blocks. The current market turbulences are consequences of a business cycle ending with high inflation and a risk of recession resulting from fierce policy tightening. That is underpinning our tactical asset allocation with an overweight cash and underweight equities. On the active side, CTA and private markets are diversifiers and return generators in the current high volatility. Profits are taken on "old energy" while keeping the "new energy" theme open. A new asset cycle will eventually emerge in 2023 propelled by new supply economics solving the fragilities of the past. The USA remained best placed to exit first the stagflation corner. Over the coming weeks, risky assets could reverse their oversold territories should general inflation absorb numerous signals of declining price pressures and demand destruction.

On the brink before a new cycle emerge

If a business cycle ends when central banks are at the brick of precipitating a full-blown recession, we may be in this moment. Indeed, the Fed and its cohort of inflation defenders are raging with 50 bp to 75bp hike moves. Behind the battle scene, 14 prices variables ranging from construction costs, crude oil, rents, service prices PMI, freight costs, used cars prices etc…, are pointing toward lower headline inflation in the coming months. **Lower inflation will pave the way for stabilizing bond yields at the long end and an inflection point for markets.** In the meantime, tight financial liquidity remains sensitive for pricing assets and contribute to the current rout in risky assets. Conditions for finding a bottom are forming (see Graph 2) based on technical variables. Past analysis portends that equities may perform strongly in the year following the last rate hike, but the risk of bottom fishing might be too high in time dominated by market sentiment. **A silver lining is the 5% yield offered for 5% years on the USD IG** bond market. It may prove a market made opportunities to beef up the future income and replay a stabilizing role in the portfolio.

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



Graph 2: S&P500 Index

DAAO: the age of macro trends

While the price (interest rates) of liquidity is rising and net liquidity (FED balance sheet – Treasury General Account – Reverse Repo at the FED) is vanishing in a context of geopolitical tensions, marked trends have materialized across all asset classes. Omega geared clients' portfolios to these strategies almost two years ago with success and is now enlarging its universe of solutions to further increase the stability of its returns. The view is held that these macro dislocations will persist going forward and that global macro strategies, in particular quantitative trend following, remain a must-have in any portfolio.

Tactical positioning. Technical configuration on S&P500 is at a pivot as it is testing major supports (lower band of bear channel, lower Fibonnaci Retracement line, 200Week Moving Average, close to oversold conditions weekly RSI) approaching the end of investor psychology cycle. That would suggest that we are close to a bottom even if we don't exclude another sharp down leg, panic sell-off in bear market rarely finished without a spike in volatility. So not an immediate buying opportunity but a sign that the bottom could be near. The last rate hike, could entail to progressively rebuilding the equity exposure.

Reducing the 'old' fossils Energy exposure and concentrate on the 'new' Energy solutions to adapt to current spectrum of new solutions.

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

OMEGA WEALTH MANAGEMENT