Rothschild & Co
Wealth Management

MARKET PERSPECTIVE | SEPTEMBER 2022

Climbing the wall

Foreword

The wall of worry is looking insurmountable again. If we believe what we read, monetary credibility has now been thrown away; a seventies-type wage spiral is upon us; a slump is inevitable; the Thucydides trap is sprung – and capital markets are pricing in little of this.

Surveys of US and European consumer confidence have hit record lows this summer. So too has a widely watched survey of institutional investors' mood. Mr Gorbachev's passing reminds us that political leadership has long since departed the global stage.

Muddle through this, indeed.

But we will.

Today's worries are more troubling to us than were earlier fixations with debt, demography and deflation (remember that one?). Central banks really have been that naive; inflation can do profound damage; the hit to European (including British) terms of trade and real wages is real and unavoidable; dreadful attrition continues in Ukraine; China's claim on Taiwan is non-negotiable.

The worries are real then – and while the risks posed by the business cycle are familiar, today's geopolitical stress is unsettlingly novel, as we noted in July.

But they are not conclusive. For example, a slump is not inevitable; it is way too soon to talk of that wage/price spiral; "non-negotiable" is not the same as "imminently actionable". Governments are net winners from inflation, and can afford to pay poorer households' energy bills. Potential output is likely to be trending higher: capacity is not fixed. The "great resignation" is being retired.

We have likely seen more dramatic downturns, and recently – in the pandemic, and after the GFC. Meanwhile, volatility may stay high, but markets do now seem to us to be pricing in a lot of cyclical risk. In the money markets, implied interest rates are starting to look almost "normal". Cash still has a lot going for it tactically, but long-term inflation beating returns are likely available from stocks – and more visibly than was the case at the start of the year.

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Image sources: Chinese Yuan
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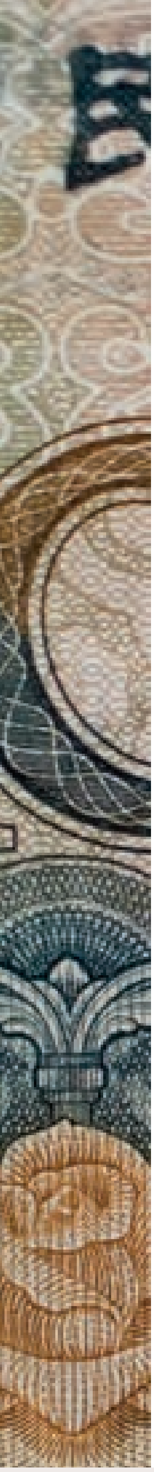


Slump is not inevitable

ENERGY COSTS ARE THE BIGGEST THREAT...

As we see it, the biggest threat to growth comes from the lop-sided nature of today's inflation, not yet from monetary policy (despite the chorus of claims to the contrary).

Energy prices are rising faster than consumer prices in general, and pay is lagging behind both: terms of trade and real wages are being squeezed hard. By contrast, interest rates are still well below consumer price inflation and even wage growth – and probably by a bigger margin than was expected at the start of the year.

Europe's energy squeeze is indeed daunting. Natural gas prices this year may turn out, on average, three to four times higher than in 2021. For the UK, some dramatically abrupt increases in household bills have been looming as the energy "price cap" is updated. For the European Union, higher prices are likely to be augmented by shortages and rationing.

However, the prospective downturns may be more manageable than feared. A detailed analysis by the IMF for the EU agrees with our back-of-the-envelope estimates that the impact might be of the order of 2–3 percentage points of annual GDP. The Fund notes that the pain is spread unevenly within the EU, with Germany and especially Italy facing bigger hits, and France, Spain and the Netherlands facing smaller ones.

On its own, this would represent a moderate recession (output fell by more after the Global Financial Crisis, and by much more in the pandemic lockdowns). However, in practice the hit is likely to be muted – by fiscal policy; by households and businesses making economies, and where possible shifting to other energy sources; and more prosaically, by the general looseness or "wiggle room" even in relatively full-employed economies.

... BUT THEIR IMPACT MAY BE MUTED

The prospective pain for poorer families in particular makes more government support politically imperative. The big governments can afford it – they have more room on their balance sheets than would have been the case (say) a year ago.

FIGURE 1: SPENDING AND PAY CAN DIVERGE

Average real pay and total real consumer spending (indices), 100 = 1 January 2007

Source: Rothschild & Co, Datastream

Governments are usually among the winners from inflation. Their debt is largely fixed in nominal terms (even in the UK, whose government issues more inflation-linked bonds than most). As nominal GDP inflates, debt ratios fall. Bond yields – the cost of servicing that debt – have risen in nominal terms, but conventional yields are still far behind inflation, and new borrowing and refinancing is small relative to the stock of debt outstanding.

This is why you often see it suggested that governments deliberately cause inflation (to which our response has been that using inflation to ease the debt burden is like setting fire to your house to tackle a damp problem).

Government support – a "fiscal shield" – and likely household adaptation are not the end of the story. The links between average real pay and total spending are looser in practice than the textbooks and econometric models suggest. Just how far total consumer spending falls in response to lower real pay will depend, for example, on whether:

- Households already spend all their income or can choose to save less.
- They have assets to help tide them over.
- They have pre-committed and budgeted for some spending in advance.
- Employment levels are changing alongside per capita pay.

Here in the UK, real pay has fallen sharply in the last year, but is doing so after rising perhaps unexpectedly after the pandemic. Did consumers get used to that higher level of pay to begin with? If not, wiggle room now may be higher.

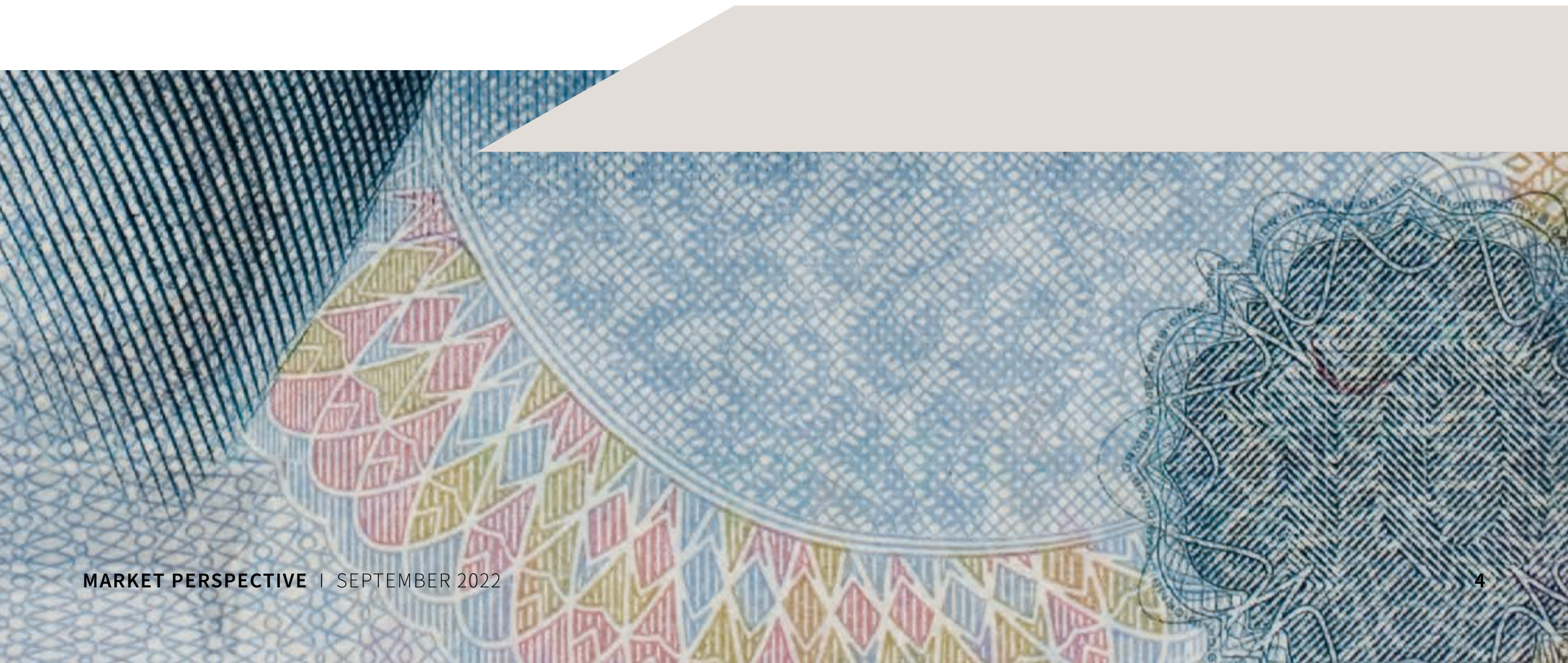
Figure 1 shows how real spending in both the US and the UK has occasionally diverged from real pay, sometimes even moving in the opposite direction altogether (over the period charted, employment growth has been positive – but not by enough to explain the divergence).

Meanwhile, the economy's productive capacity is usually growing as we collectively move up the learning curve and innovate. Even the supply of labour may be a bit less binding than today's low unemployment rates suggest. Many people left the workforce after the pandemic, leading to talk of a "great resignation". As is often the case, the op-eds may have been premature: the fall in participation rates has been reversing, at least in the US and UK (where we have the most timely data).

Improved supply doesn't cancel the impact of energy prices, but it offers the potential for employment – with unfilled vacancies still historically high – to support total spending power. It also helps reduce the threat of spiralling inflation, and an eventual monetary policy overshoot.

FLEXIBLE REAL WAGES MAY NOT BE ALL BAD

One of the reasons for thinking 1970s-style wage/price spirals can be avoided follows directly from this weakness in real pay (nobody said those worries have to be consistent). The fact that pay is being squeezed so sharply by energy bills and the rising cost of living generally is itself telling us something about the risk of such a spiral being low.



For all sorts of reasons – not just the decline in union density – western labour markets today are likely more flexible. Perhaps not coincidentally, employment rates have been higher.

In the UK in particular, the poster child for historic inflation excess, real pay is already looking softer than it did then (figure 2). Through the earlier episode, real average earnings only fell in one year, 1977. Then, real wages were not so much being successfully defended as actively winning the battle. Today, they have started with a retreat – if the metaphor still fits.

Perhaps today's weakness is a temporary squeeze, and pay will catch up. Industrial unrest is certainly spreading, especially in the UK, though the number of days lost to industrial action even now is tiny by comparison with the 1970s. But the surge in energy costs is likely to be more of a spike than a plateau, and many workers may implicitly accept that – energy company mismanagement aside – the main cause of high prices is an external one. We doubt that pay will catch up – at least, until headline inflation has already slowed markedly.

MONETARY CREDIBILITY: DENTED, NOT LOST

We offer a situation report on the latest price and wage inflation data below. The main point from a macro perspective is that if inflation risk is indeed still set to roll over – even if doing so higher, and later, than expected – the need for a more drastic, Volcker-style monetary re-set is reduced. We still think that western inflation rates will eventually settle in the 2–4% range – meaningfully higher than in the last quarter-century, but materially lower than today.

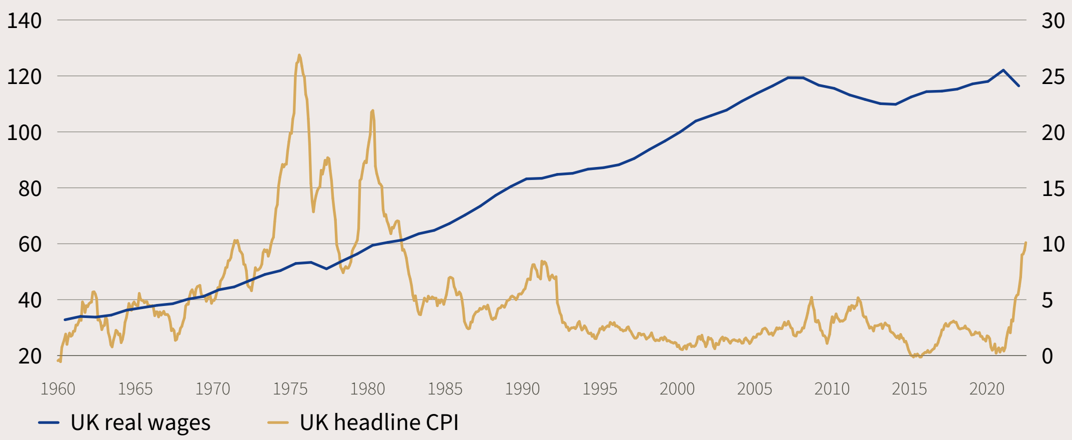
This may sound fanciful, but bear in mind that the Federal Reserve's targeted measure (the core private consumption deflator) has been back below 5% since April, and that some of the eye-catching estimates for the likely peak in UK inflation are likely to be excessive in light of the measures likely to be taken by the new government.

Even so, history may not be kind to today's central bankers (see, already, June's paper by Ricardo Reis at the LSE, *The Burst of High Inflation in 2021–22: How and Why Did We Get Here?*). They did not cause energy prices to surge, but a mix of groupthink, epistemological naivety and mission creep encouraged them to leave monetary conditions needlessly loose in increasingly fully employed economies. This surely contributed to the surge in core inflation. The only surprise in the Fed chair's overdue hawkishness at Jackson Hole was the seeming lack of embarrassment.

That said, as we see it monetary credibility has been dented, but not yet lost. Inflation expectations – as surveyed or embedded in inflation-linked bond prices – have not yet lost their longer-term anchor, and monetary conditions are belatedly being tightened more briskly.

FIGURE 2: UK REAL WAGES DIDN'T FALL OFTEN IN THE 1970S, BUT THEY ARE NOW

UK real average earnings (index) and UK CPI (annual % change, right)



Source: Rothschild & Co, Bank of England, Datastream

Central banks themselves may still not have gauged fully the extent to which they may need to tighten, and the peak policy rates priced in to money markets are only just approaching what we used to think of as "normal" levels (that is, 4–5% in the US and UK, perhaps 3–4% in the eurozone). There is clearly the potential for more interest rate-driven volatility in markets. But as noted, a more dramatic expectation-busting reset may not be necessary.

In the meantime, the links between policy rates and the real economy – as with those between real pay and spending – are pretty loose. Pay may be lagging prices, but it is still growing at rates that are above many mortgage rates – which in turn are often fixed (usually, in the case of the US). The maturity of corporate borrowing has lengthened, and systemic risk may be smaller than it was in the noughties: bank balance sheets are much less stretched now.

Economists like to say that the Fed has been responsible for most recessions, but correlation is not causation: rising rates do not have to hit the economy hard. As ever, it all depends.

As yet, forward-looking business surveys continue to point to a global economy that is slowing, not collapsing. Corporate profitability may have peaked, and expectations for corporate earnings likely have further to adjust, but a big fall is not a given – not least because of the surge in energy sector income.

"Things may not turn out so grim" is hardly a clarion call, and it is difficult to prove a negative. But the many uncertainties we face do not all have to be resolved fully and quickly. Today's gloom is understandable, but investors should try to keep an open mind: whether it is climbed, turned or tunnelled, the wall of worry may not stop economies – and markets – from moving on.

INVESTMENT CONCLUSION

Stocks and even some government bonds – more than in June – are no longer looking especially expensive. Our cyclically adjusted PE ratio is once again close to its trend (figure 3), and the interest rates priced into money and bond markets have risen markedly (figure 4).

The outturn for corporate earnings in the second quarter was actually ahead of (lowered) expectations, but as noted we think the latter may still be too high for the rest of 2022 and 2023. Stock prices are more volatile than earnings, however, and with even a full year's earnings perhaps representing only around 3% of the market's discounted present value, and global stocks down almost a quarter from their high, there is clearly quite a bit of bad news now in the price. Further downgrades will not necessarily prevent the market from rallying.

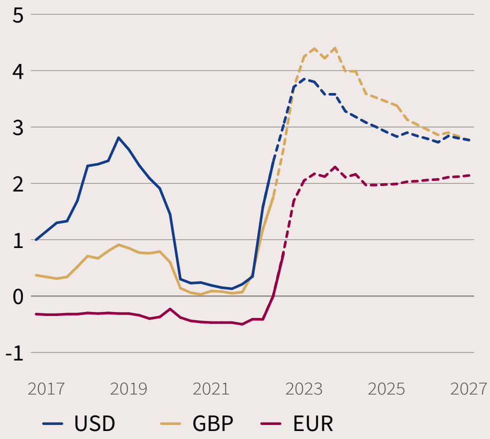
FIGURE 3: STOCK VALUATIONS ARE NOT OUTLANDISH

Cyclically-adjusted PE ratio and trend, all-countries index

Source: Rothschild & Co, MSCI, Datastream

FIGURE 4: INTEREST RATE EXPECTATIONS HAVE RISEN FURTHER

Market-implied short-term interest rates, %



Source: Rothschild & Co, Bloomberg

More government bond yields have risen into the 2–4% range in which we think US and European inflation will eventually settle, including more short-dated bonds in particular. Yield curves generally have flattened, as they usually do when growth expectations are falling and central banks are hiking. But curves have also shifted higher: longer-duration bonds have again sold off painfully even as shorter-dated yields have risen most.

Market timing is not easy (as we often argue here). We suspect volatility will continue for a while – if not until the global economy and corporate earnings can be seen to have bottomed, then at least until core inflation rates suggest interest rate risk has peaked (we assume the conflict in Ukraine neither escalates nor abates, and we doubt China will act decisively on its claim on Taiwan – see below). Tactically, cash still seems to have a lot going for it – it is less volatile than both stocks and bonds.

Strategically, however, at today's valuations, we think inflation-beating long-term returns are available from the big stock indices, and more clearly than was the case at the start of the year – sufficiently, alongside bonds' higher yields, to deliver positive real portfolio returns overall.

As inflation and interest rates climb and diverge, in the context of elevated global insecurity, foreign exchange movements are becoming more interesting (as it were). The dollar has strengthened against most big currencies; the pound and particularly the yen have mostly fallen, and some long-standing trading ranges have now been broken (in contrast to when we wrote last).

However, currency trades are even harder to time than the rest, and the equity portions of multi-asset portfolios offer a degree of inbuilt currency diversification via the biggest companies' global footprints. The dollar is expensive, even allowing for its lower inflation. We need higher conviction to recommend a directional trade from here: foreign currency trades are not a credible source of long-term returns (though explicit hedges can be useful in managing volatility).

This month's final investment word is on commodities. We have long maintained that they are not a sure-fire inflation hedge, nor are they as accessible as they sound. That view was more difficult to hold for a while in the immediate aftermath of the invasion, but six months on we note that with the exception of energy – and oil prices are now up only a little – most commodities in the big indices have fallen, including of course gold and silver.

Shortages of strategic minerals and metals will doubtless continue to bite intermittently. But unless autarky does break out, we think a mix of exploration, innovation, adaptation and substitution will continue to make Malthusian trades an expensive mistake for long-term investors. Again, this assumes that they can be implemented to begin with.

Inflation update

Headline inflation rates – currently at 7.7% (y/y) in developed markets and 10.1% in emerging markets (14.8% excluding China) – have perhaps reached a turning point (figure 5). Global supply chain stress – a major contributor to goods-price inflation – has subsided, according to the New York Fed's Supply Chain Pressure Index (figure 6). Broader commodity prices (excluding energy) are below their year-to-date highs. World food prices have fallen for five consecutive months, as stated by the Food and Agriculture Organization of the UN.

However, there is perhaps more divergence between regions – notably between the US and Europe, and the UK and the eurozone.

In the US, the headline inflation rate softened to 8.5% (y/y) in July, below expectations for the first time in 18 months. Falling energy prices were the primary driver of the weaker headline reading, though price pressure from the 'goods' category also cooled off. US gasoline prices – which account for over 50% of the energy basket – also fell during August, suggesting more disinflation on this score at least in the next release.

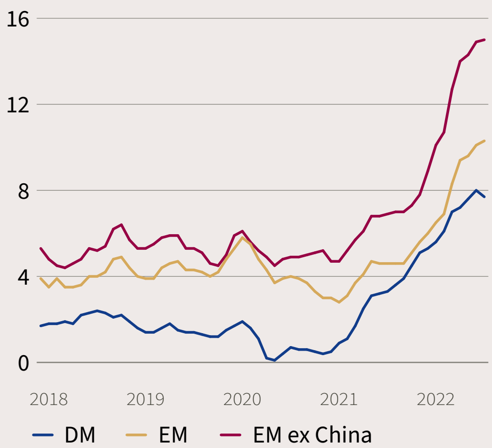
On the other hand, Europe's price dynamics appear more troubling. UK headline CPI rose above 10% in July and may remain in double-digit territory through the first half of next year (though depending on the new government's plans for the price cap, this can no longer be taken for granted). Similarly, eurozone inflation will likely be heavily impacted from higher energy prices in the near term: natural gas prices have risen sharply, as noted, though most recently they have fallen back somewhat. Germany is clearly exposed, with year-ahead baseload power prices jumping by 70% over the past month (some of this increase will inevitably be felt by consumers).

Meanwhile, inflationary pressures remain more modest in Asia. Japanese headline inflation is nearing 3%, while China's inflation rate appears soft relative to historical trends: headline inflation rose to 2.7% in July – on the back of higher pork prices – but core inflation remained below 1%.

It will take some time for inflation to subside to the 2–4% range in which we expect it to settle in the US and Europe, and even more for it to return sustainably to central bank targets of 2%. As the most obviously transitory (energy and food) components fade, attention will refocus on wage growth, the crucial determinant of core inflation going forward.

FIGURE 5: DEVELOPED AND EMERGING MARKET HEADLINE INFLATION RATES

Annual change, %



Source: Rothschild & Co, Bloomberg
Footnote: Regional series have been constructed by using a GDP-weighted average of different countries' headline CPI rates

FIGURE 6: GLOBAL SUPPLY CHAIN PRESSURE INDEX

Standard deviations from average

Source: Rothschild & Co, Bloomberg, Federal Reserve, Bank of New York

As noted, there is widespread talk of a wage-price spiral – in which wages and prices chase each other to ever-higher levels – taking root. Amid a tight labour market backdrop, wage growth has indeed picked up in the US and UK (and very modestly in the eurozone). Nonetheless, it has been lagging well behind headline price inflation (figure 7). Real wage growth has been firmly negative in all three regions (figure 8).

There's always the possibility that real wage growth revives next year, particularly as inflation rates start to roll over, triggering a self-reinforcing price spiral. But this may be avoided.

First, wage pressures don't appear to be broad-based (in the US, at least). Wage growth for higher earners has increased only modestly and is well below pre-financial crisis growth rates (figure 9). Instead, wages for those on lower incomes have understandably accelerated most – perhaps because of labour shortages in some key low-income sectors such as catering, which may now abate fastest if participation rates continue to revive as noted.

FIGURE 7: NOMINAL WAGE GROWTH MAY BE ELEVATED...

Annual change, %

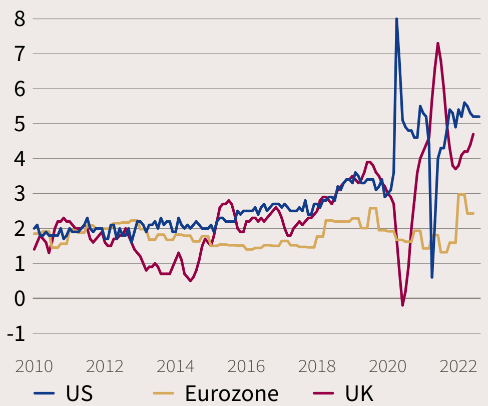
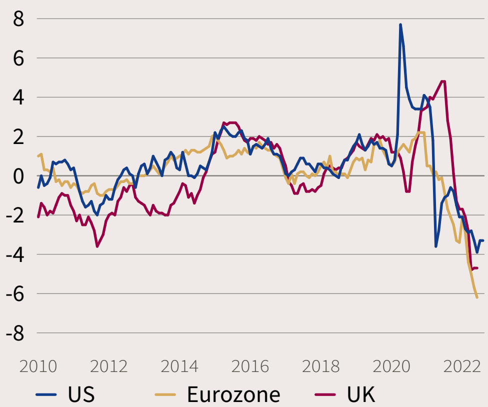


FIGURE 8: ...BUT REAL WAGE GROWTH IS NEGATIVE

Annual change, %

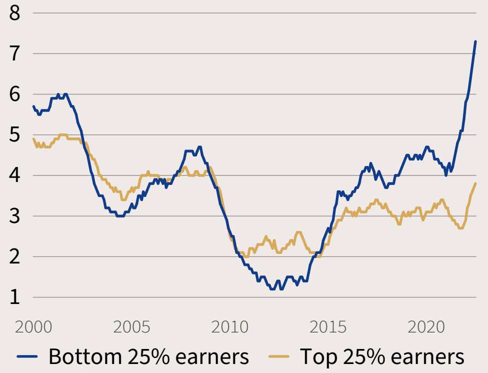


Source: Rothschild & Co, Bloomberg

Footnote: Real wage growth is nominal wage growth minus headline inflation rates. We have used the BLS average hourly earnings series for the US, the ONS average weekly earnings ex. bonus series for the UK, and the ECB negotiated wage indicator for the eurozone.

FIGURE 9: LOW VERSUS HIGH INCOME PAY GROWTH IN THE US

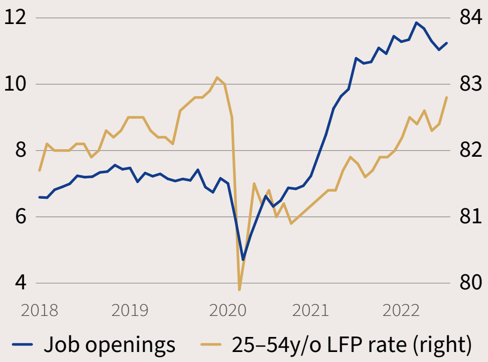
Annual change, %



Source: Rothschild & Co, Bloomberg, Federal Reserve Bank of Atlanta

FIGURE 10: US JOB OPENINGS AND LABOUR PARTICIPATION

Left: millions, right: %



Source: Rothschild & Co, Bloomberg, US Bureau of Labor Statistics

Second, the labour demand-supply imbalance is showing tentative signs of fading as demand begins to ebb. US job opening data – a gauge of labour demand – finally appears to have turned lower (figure 10). Anecdotally, firms have warned of slower hiring (and even reductions to existing headcount). If the labour market is indeed poised to loosen a little – which is arguably the goal of tighter monetary policy after all – then excess demand should fall, reducing the probability of a wage-price spiral taking hold.

Finally, it's important to remember those structural differences with the 1970s, when a wage-price spiral did gain hold. Unionisation is much lower nowadays, as discussed in July's Market Perspective. In the US, for instance, only 10% of employees are members of a union, compared to a figure almost three times higher in 1970. But in addition, the global supply of labour has effectively been augmented by China's workforce; and there has been a big shift towards intangible (including digital) output, and most recently towards remote working, which have also contributed to a more atomised (that is, competitive) labour market. When demand does settle down, it may likely remain a relatively fully employed one as a result.

The political calendar

The final few months of 2022 are busier than usual. The new UK prime minister will be finding their feet, and we face an Italian election, China's National Congress and the US midterm elections.

The UK's new Prime Minister, Liz Truss, has already acknowledged the political imperative noted above: the details have yet to be decided, but her administration is likely to speedily introduce significant further support for households otherwise facing a likely fourfold increase in average energy bills to January 2023. Other possible initiatives include a more aggressive stance towards the EU over trade with Northern Ireland; hypothecating the UK's 'covid' debt; and revisiting the Bank of England's mandate. All this is to be seen against a backdrop of a wider attempt to refocus UK economic strategy on growth and away from the (alleged) redistribution of incomes.

Received wisdom suggests that she faces the most testing "in-tray" of any recent incoming PM. Cynical observers might suggest that this is better than inheriting a following wind: things can perhaps only get better (not our view – partly because we don't share the popular doomsday view of the UK economy to begin with). They might also suggest that with British PMs resembling London buses recently, it may in any case not be her problem – or opportunity – for long.

In Europe, Mario Draghi's brief tenure as Prime Minister brought a measure of calm to Italian politics. The fractious coalition of parties was initially upended by the Five Star Movement's decision to rescind its confidence in his premiership over the summer. The mounting chance of an even more Eurosceptic coalition coming to power – combining the League, Brothers of Italy and Berlusconi's party, Forward Italy – are igniting fears that the bloc's integration may be imperilled, and fragmentation is likely to ensue.

While the European Commission may be anxious, peripheral government borrowing costs remain subdued. The difference in yields (the 'spread') between Italian government bonds (BTPs) and those of safe-haven Germany (Bunds) has widened to 240bps, but still is muted by historical standards (for context, they peaked at 550bps during the 2011 eurozone debt crisis).

The timely introduction of the ECB's Transmission Protection Tool (TPI) – designed to alleviate peripheral spread widening – may also provide an implicit backstop, tempering rising borrowing costs.

Whatever coalition materialises, talk of 'Quitaly' seems likely to be premature (once again).

Further afield, but arguably closer to home portfolio-wise, President Xi Jinping has been facing his biggest test yet: China's growth has stalled in the face of recurrent covid outbreaks, alongside an incapacitated property market and growing systemic risks. The intensification of these macro pressures has further eroded investor sentiment following 2021's damaging regulatory crackdown: China's internationally investable stock market is down nearly 40% since December 2020.

In October, China's Communist Party will convene the 20th Party Congress in what will likely be a litmus test of Xi's popularity – the National Congress is elected for a period of five years and is responsible for appointing the President and Vice President. Xi's political ambitions are well known, and he seems set to secure a third term in office after successfully dispensing with constitutional limits in 2018. However, his long-term strategic intentions for China will likely have lasting global implications. China's 'old' model – a relentless focus on growth, often investment and debt-fuelled – has been evolving toward an emphasis on 'national revival', centred on domestic industry, economic nationalism, and wider welfare and greater equality.

The biggest and potentially most globally disruptive ambition is China's long-standing claim on Taiwan. The passion and consistency with which China's ruling party holds this view, and the historical context, is perhaps not always acknowledged by the West, and recent US diplomatic delegations – and presidential comments – have raised the temperature.

China's economic ascendancy is often overstated, but its economy matters massively in a way that Russia's doesn't. But the global economy also matters to China, whose material progress has done a lot to secure the Communist Party's rule, and we think that its actions will stop at a declaration, rather than a demonstration, of intent.

Finally, in November we face the narrow US midterm elections, where the political tides favour a Republican-controlled Congress. The president – whose popularity is often a barometer of electoral fortunes – has faced an ever-growing list of challenges over the past 18 months: a stranded legislative agenda; fading approval ratings (amongst the lowest of any first term president); internal party politics – a defiant Joe Manchin still unwilling to toe the party line; and most importantly, the arrival of more pressing issues, namely inflation and a slowing economy.

That momentum may have turned a corner a few weeks back with the passage of two pieces of legislation: the CHIPs act – designed to facilitate domestic semiconductor manufacturing and research – and the misleadingly named 'Inflation Reduction Act', which combines a number of clean energy initiatives, partially addresses the thorny topic of inflated drug prices, and includes a number of (corporate) tax raising measures. This latter bill also represents a triumph for Biden where his predecessors failed: neither Clinton nor Obama were able to pass climate legislation during their time in office.

While these legislative victories do not alter the cyclical headwinds, which are still shaping voter sentiment, recent special elections – mostly congressional primaries – suggest the Democrats have fared better that recent polling would imply. Equally, Republican hopefuls in some of the swing states have failed to raise as much cash as the Democratic incumbent. This may not be a good predictor of likely electoral success, but it does suggest the outturn may not be so painful for the Democrats. That said, with the arch-populist watching and waiting, the stakes in 2024 are mounting.

Economy and markets: background

GROWTH: MAJOR ECONOMIES

Business optimism: standard deviations from trend

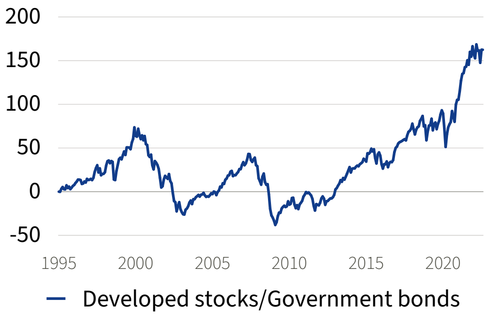
Source: Bloomberg, Rothschild & Co
Composite of the forward-looking components of manufacturing surveys from China, Germany, Japan, UK and US loosely weighted by GDP

G7 INFLATION

%, year-on-year

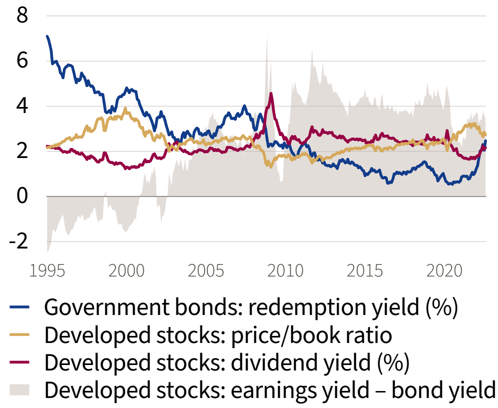
Source: OECD, Bloomberg, Rothschild & Co

STOCKS/BONDS — RELATIVE RETURN INDEX (%)



Source: MSCI, Bank of America Merrill Lynch, Bloomberg, Rothschild & Co

STOCKS/BONDS — RELATIVE VALUATIONS



Source: MSCI, Bank of America Merrill Lynch, Bloomberg, Rothschild & Co

SELECTED BONDS

Current yields, recent local currency returns

	YIELD (%)	1YR (%)	3YR (%)
10-yr US Treasury	3.2	-12.7	-7.9
10-yr UK Gilt	2.8	-13.9	-14.1
10-yr German bund	1.5	-13.8	-16.0
10-yr Swiss Govt. bond	0.8	-7.7	-12.2
10-yr Japanese Govt. bond	0.2	-1.6	-3.3
Global credit: investment grade (USD)	3.1	-10.0	-6.3
Global credit: high yield (USD)	9.0	-13.3	-1.5
Emerging (USD)	7.0	-17.7	-10.0

Source: Bloomberg, Rothschild & Co

SELECTED STOCK MARKETS

Dividend yields, recent local currency returns (MSCI indices)

	YIELD (%)	1YR (%)	3YR (%)
World: all countries	2.3	-11.8	30.0
Developed	2.2	-11.3	32.1
Emerging	3.2	-15.8	15.6
US	1.6	-13.5	39.8
Eurozone	3.4	-15.4	9.2
UK	4.0	9.2	13.5
Switzerland	2.9	-12.0	12.7
Japan	2.5	2.3	39.9

Source: Bloomberg, Rothschild & Co

SELECTED EXCHANGE RATES

Trade-weighted indices, nominal (2000 = 100)

	LEVEL	1YR (%)	3YR (%)
US Dollar (USD)	117.4	10.2	5.3
Euro (EUR)	123.6	-4.2	-0.8
Yen (JPY)	76.3	-15.1	-22.1
Pound Sterling (GBP)	78.8	-3.3	4.6
Swiss Franc (CHF)	178.5	6.9	10.2
Chinese Yuan (CNY)	145.8	5.6	14.3

Source: Bloomberg, Rothschild & Co

COMMODITIES AND VOLATILITY

	LEVEL	1YR (%)	3YR (%)
CRB spot index (1994 = 100)	290	33.1	70.5
Brent crude oil ($/b)	96.5	32.2	59.7
Gold ($/oz.)	1,711	-5.7	12.5
Industrial metals (1991 = 100)	330.3	-5.0	35.9
Implied stock volatility: VIX (%)	25.9	57.0	36.3
Implied bond volatility: MOVE (bps)	124.8	109.7	43.7

Source: Bloomberg, Rothschild & Co

Data correct as of 31 August 2022.

Past performance should not be taken as a guide to future performance.

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