quantumrock

June 2022

Market Commentary

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The high level of uncertainty emanating from the Ukraine-Russia conflict persists and continues to keep stock market volatility high. Possible gas supply stoppages and second-round effects of supply chain issues arising from the war are also weakening global economic growth.

The announcements by the central banks of the U.S.A. and Europe regarding interest rates are currently moving the financial markets and, among other things, are once again leading to falling U.S. Treasuries and European government bonds.

In view of the high inflation expectations, the Fed signaled that it would raise its key interest rate further. It is expected that the key interest rate will be raised by 50 basis points to 1.75%-2% in both June and July. From the perspective of the financial markets, the Fed is currently expected to make three further interest rate hikes this year, which would raise the key rate to the level of 2.5%-2.75% in 2022.

Looking at the ECB, compared with the last monetary policy decision in April, which still assumed a very slow normalization path for monetary policy, signs of a more rapid tightening of monetary policy are becoming more likely. In recent weeks, a change in the tone of the central bank's leadership has been clearly noticeable. In addition to ECB President Christine Lagarde as well as ECB Vice President Luis de Guindos, more and more weighty voices spoke out in favor of an early end to APP bond purchases in Q3 and considered a first interest rate hike as early as July. Against the backdrop of the inflation rate in the euro area, which has now risen to 8.1% (HICP, April), the ECB's future monetary policy course thus seems set. Market expectations already assume a first increase of the deposit rate by 25 basis points in July.

If we take a look at the current equity risk, we see that fears of recession have generated significant skepticism on the stock markets. This has been triggered primarily by the Ukraine war, increasing interest rate hike expectations and the economic gloom in China caused by the omicron wave. In addition to the resulting challenges for companies, equity markets are currently significantly influenced by overall market or systematic risks. Upcoming interest rate and economic changes as well as ongoing political conflicts will continue to keep global markets tense. It can therefore be assumed that the stock markets will remain volatile for the foreseeable future.

In focus in June: Equity risk & volatile markets

- Further key interest rate hikes expected by the Fed
- New ECB monetary policy course appears set
- Recession fears on the rise
- Current high volatility on stock markets continues

Our Solution

With our *Equity Alpha Add-On*, we offer an innovative approach that enables investors to optimize their position in equities in an alpha-driven manner.

Traditional hedging approaches face significant challenges, especially due to the high cost of hedging. Continuous short positions (or buying put options), have a high cost (negative cost of carry).

Using advanced technologies such as Artificial Intelligence and Machine Learning, we have developed systematic strategies that attempt to predict the market and accordingly take positions in the S&P 500 and VIX future situationally rather than continuously.

By market timing, rather than continuously holding positions, we achieve alpha-driven improvements in client portfolios, particularly during periods of high market uncertainty and volatility, while significantly reducing costs compared to traditional hedging methods.

The *Equity Alpha Add-On* is available to investors as a stand-alone solution or as a component of our *Absolute Return VSOP* Fund.

Quantumrock *Absolute Return VSOP's* AI and ML-based investment approach targets market-independent returns through a combination of different alpha sources in equities (S&P500), fixed income (10-Year US Treasury) and volatility (VIX).

Particular emphasis is placed on strategies that aim to generate crisis alpha through the timing of volatility (VIX) and the underlying equity market (S&P500) in times of crisis.

This dynamic absolute return strategy, implemented through derivatives, allows us to identify different sources of performance while achieving dynamic protection in sharply falling markets by adding temporary crisis alpha.

Quantumrock Absolute Return VSOP is therefore an optimal diversifier in a broader asset allocation and should improve the risk-return ratio of most client portfolios.

The multi-asset investment approach focuses on long-term capital preservation but requires risk tolerance towards short-term drawdowns.

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