27th July 2022

Issue No. 2

The Adaptive Asset Allocation Report

A Model driven Business Cycle Trend Following approach to investing

Robin Griffiths
Editor

► Robin Griffiths is Editor of The Adaptive Asset Allocation Report. Prior to this he was the Editor of the Dynamic Investment Trends Alert, a market newsletter for private investors published by Southbank Investment Research. Robin has served as Head of Multi-Asset Research & Advisory at the ECU Group. He was previously Chief Technical Strategist at HSBC Investment Bank for 20 years, before becoming Head of Global Asset Allocation at Rathbones, and then a director and technical strategist for Cazenove Capital Management. Robin was a Partner of WI Carr and Head of Technical Analysis at Grieveson Grant. Robin is a committee member and former chairman of the International Federation of Technical Analysts, and former chairman, now fellow, of the British Society of Technical Analysts. Robin has been a member of ECU's Global Macro Team for over 20 years. Robin has won several Technical Analyst awards for his research.

Survival Strategy

Dear Readers,

We want to thank our readers who have followed us in our new organization. We hope we have added value for you and continue to do so. In the past, the Adaptive Asset Allocation (AAA) model has always tried to make money by owning the strongest trending asset classes. We rate the assets on both absolute and relative strength. Most of the time the model has been fully invested, and it has also not been necessary to make changes too frequently – which has helped keep down expenses. However, in a bear market the strongest assets may still lose money. Their price just falls less than others. We do not wish to own them when this happens. We are in such a case now.

The Global economy is struggling with super strong inflation. The economy is already massively in debt. Wages have been lagging well behind events and many are living hand-to-mouth. Governments are trying hard to control inflation, which in the short term makes life even tougher than it had to be. It looks inevitable that we will get a recession in due course. In these circumstances, we want to survive. Doing this will make money in the long term, but the important part is to survive now. The AAA model does not want to own country equity markets or bonds at present. It likes cash and, in some markets, it likes being short. It does still own some commodities but has sold others. It is normal for Industrial metals to turn down early as they are very sensitive to economic growth.

Even though we only own the top quintile of assets it is well worth looking at what happens in the body of the table. Gold is doing well. The strongest equity markets are India, USA and UK. However, notice that short (inverse) FTSE comes above all of them. So does cash. These are clearly bear market dynamics and the speed of the drop in copper and other industrial metals tells us that we can expect some quite violent moves in markets. This means we need to be more cautious. The top priority is to survive now. Later, there will come a better time to grow money. Good Luck.

Best Wishes,

Robin Griffiths

Rashpal Sohan
Managing Editor

► Rashpal Sohan is Managing Editor of The Adaptive Asset Allocation Report. Prior to this he was the Managing Editor of the Dynamic Investment Trends Alert, a model driven investment publication for private investors published by Southbank Investment Research. Rashpal is a consultant data scientist who has developed the model for The AAA report. Rashpal holds a keen interest in data driven insights using Visualisation and Machine Learning and holds a Masters in Data Science from City, University of London, with distinction. His dissertation was on the topic of a Risk-Based Dynamic Asset Allocation Strategy using Ensemble Machine Learning and was awarded the City University Computer Science Outstanding Project Prize. The underlying trend algorithm from his dissertation forms the basis of the AAA Model. Rashpal has served as Senior Macro & Quantitative Strategist to the ECU Group, and built several fundamental and quantitative models for use in Dynamic Asset Allocation. Rashpal has over 15 years of experience in Asset Allocation, having previously served as Senior Asset Allocation Analyst for one of the UK's largest discretionary investment management firms, Rathbone Brothers. He holds a first class honors degree in Actuarial Science from the London School of Economics, is a qualified Financial Risk Management (FRM) professional and has passed all three levels of the Chartered Financial Analyst (CFA) Program. As a consultant Data Scientist, Rashpal has done projects for ByteTree, where he helped extract key insights from their Network Demand set of indicators using Machine Learning and Data Visualisation and has also done Data Science projects in Facial Recognition, Reinforcement Learning, Recommender Systems and the influence of regional personality differences on the UK's vote to leave the European Union amongst others. Rashpal has won several Technical Analyst awards for his research, together with his business partner.

Dear Readers,

We are pleased to share with you the second issue of the AAA Report. Thank you all very much for your feedback on our inaugural issue. We are glad that you like our new report [and if not, please write in to let us know your bugbears]. Unfortunately, we are still not taking payments – but don't worry about that for now. Our main objective was always to provide our readers with seamless transition from *Dynamic Investment Trends Alert,* especially in these turbulent times. So, for now, we carry on with that agenda.

The AAA Model is continuing to adapt as market conditions change. The main change this month is that the model has moved out of some commodities as recession fears have overtaken inflation concerns. It is also noteworthy that cash has moved into the Strongest Asset Category, World Equities are in the Weak Asset Category and Inverse [short] Equities rank higher than any individual country equity market. These are clearly bear market trends, so we need to invest cautiously and aim to preserve capital.

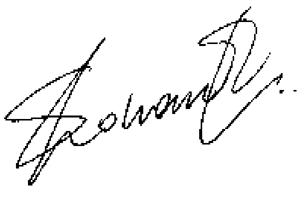
Our main concern is that the global economy is still burning red hot with inflation leaving Central banks with little option but to keep hiking interest rates. The further interest rates rise, and the more restrictive they become, the higher the risk of a global recession. Leading indicators of economic growth suggest that the Global Economy is contracting at a rate not seen since the global financial crisis [excluding the pandemic lockdown]. It's no wonder that most Senior Managers and high-level asset allocators believe the US Economy will be mired in recession, in a year's time, whilst most Brits think the UK Economy is already in one.

We are in a global equity bear market, but history shows that not all bear markets are equal. The ones that are defined by an economic backdrop similar to the one we are experiencing tend to last longer and are more brutal than others. Accordingly, we believe this bear market has legs and must not be suckered in by the rallies. Survival is the name of the game.

If you have any questions or comments, please write in to theaaareport@gmail.com. In future we will be hanging out at www.theAAAreport.com. If you have friends or family who you believe can benefit from our service, please spread the word.

Thank you again for your support over the years – we sincerely appreciate it. Good luck with your investments.

Best Wishes,



Rashpal Sohan

AAA Model Ranking
GBP Portfolio

Model Ranking Date: **25th July 2022**

IMPORTANT: Please Read the Addendum below before buying or selling any Assets.

ADDENDUM

The model was first run on 20th July 2022, this month. At this time, the strongest ranked assets were Energy Commodities, UK Cash, World Low Volatility Equities and Agricultural Commodities. The model was rerun on 25th July 2022. The strongest ranked assets are now Energy Commodities, Gold Bullion, World Low Volatility Equities and UK Cash. This positioning is very defensive and suggests we need to adopt a capital preservation strategy. Good luck.

▼ For an explanation of what this portfolio is and how to use it, please see the "Model Guide" we've compiled at the end of this issue.

Buy	• **UK Cash**
Hold	• **Energy Commodities** • **Gold Bullion** • **World Low Volatility Equities**
Sell	• **Agriculture Commodities**

- **The AAA model has moved out of some commodities as growth fears overtake inflation fears. It now likes cash and holds no country equity markets or bonds. These are survival tactics.**
- **Global inflation pressures are high and central banks are trying to control it by hiking interest rates. The price they will pay is a recession.**
- **Some parts of the global economy are already in recession and others will soon follow. It will get worse before it gets better.**
- **Global equity markets are rallying but these often leave a loss in hand. Ignore them.**

"Rates are headed sharply higher, ultimately becoming restrictive. Such a move will likely lead to a recession"

- Robert Hughes, senior research faculty at the American Institute for Economic Research

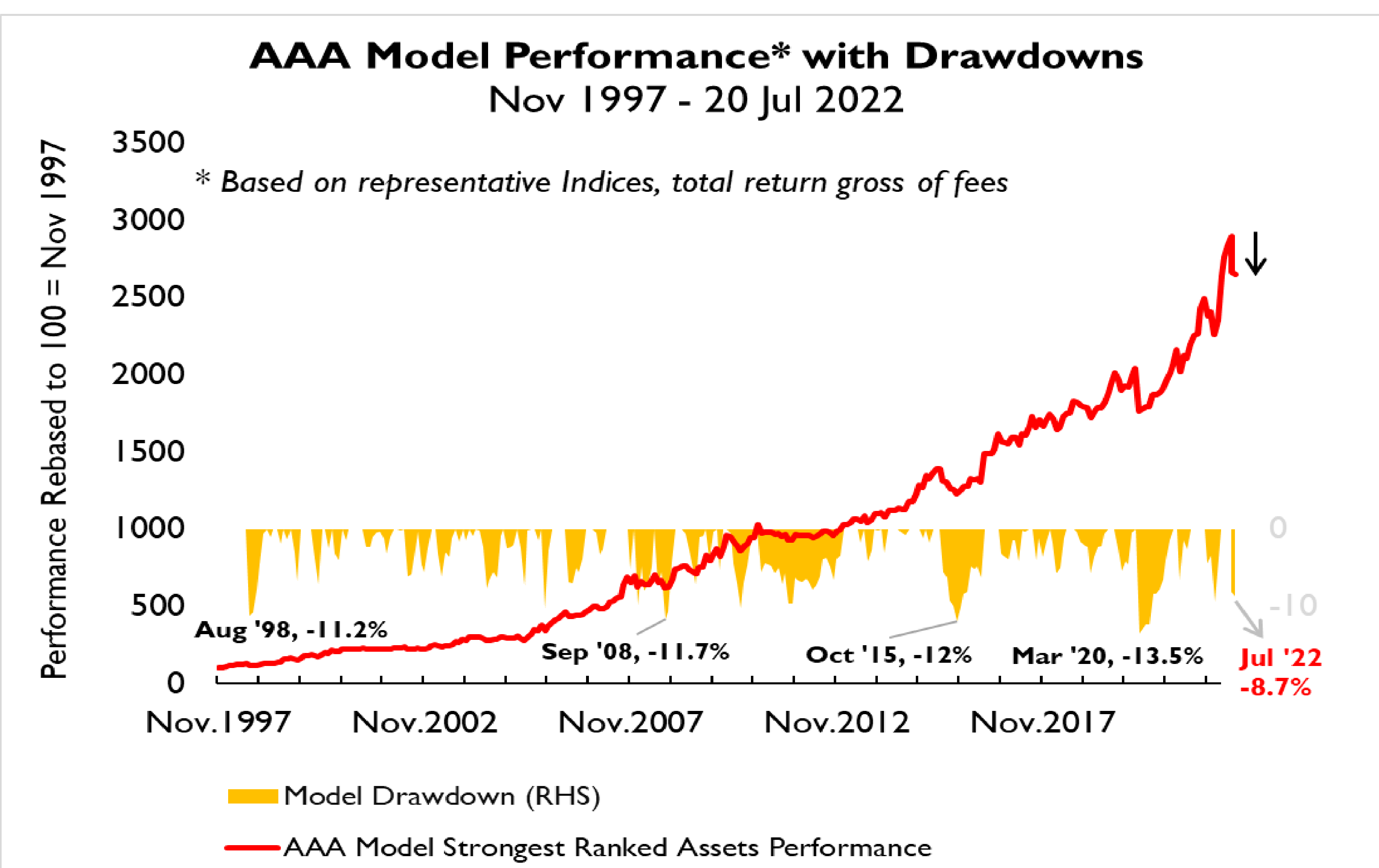
The **Adaptive Asset Allocation model** that we have developed **is making big changes again**. In the past, it has always moved to hold the strongest trending assets to make money, but without taking too much risk. In the recent past, it did well by holding several commodity groups. It did this at a time when these assets were not very popular, and it held on until they had become in vogue. Last month, it started to take profits on Industrial Metals as these sold off. Copper has normally been a reliable barometer of the global economy and was starting to send worrying signals. Now, **the message is that economic conditions are set to worsen.**

Global inflation still remains very elevated however **many commodities have tanked as economic growth fears have trumped inflation concerns.** On a relative basis, some commodities are still trending strong, but it remains doubtful whether they can defy gravity for much longer with the USA and other economies hurtling towards recession and Central banks still pushing ahead with aggressive interest-rate hikes to try and reign in sky-high inflation rates. The idea of an economic soft landing remains a pipe dream, and in short, **the situation will get worse before it gets better.**

The main strategy now is to survive by preserving capital. Hold no country equity markets or bonds. Hold selective commodity positions. Cash and inverse (short) equities are both stronger assets than any individual equity market at the moment. This is a strategy with the doors locked and crash hats on. We are preserving, protecting and aiming to survive.

Despite the difficult economic backdrop, **the AAA Model is doing well**. It has dropped back a bit, as the correction in commodity prices has been fast. The performance has slipped by 8.7% but the model is still up 13.5% this year. This level of volatility is not atypical of the Model, looking back at its historical track record (Figure 1). The 1998 Asian Crisis, 2008 Great Financial Crisis, 2015 China devaluation scare and 2020 pandemic all saw corrections of over 10%.

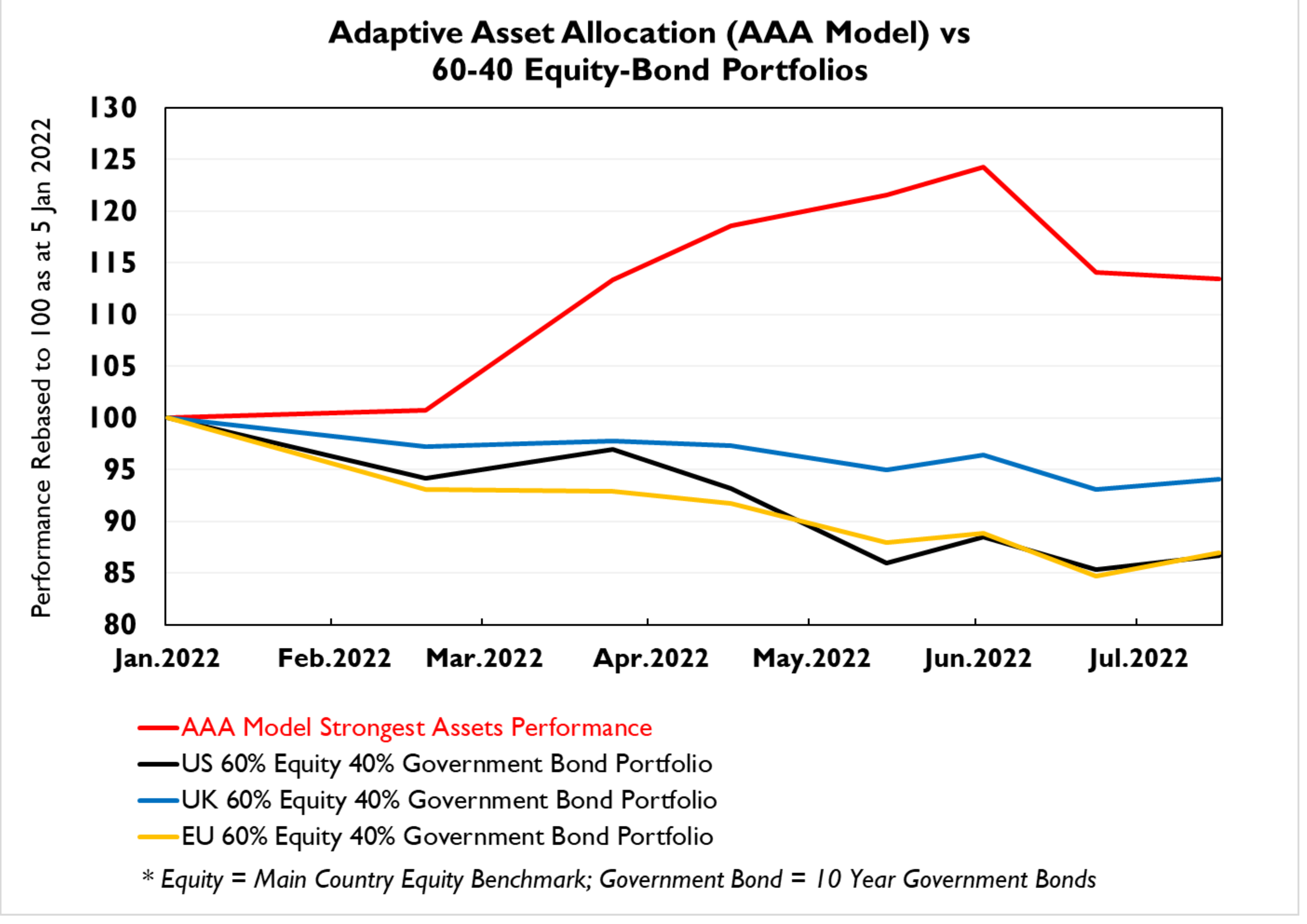
► **Figure 1: The AAA Model has corrected by 8.7% this year but is still up 13.5% YTD**



Source: The AAA Report, Refinitiv Datastream

When evaluating the performance of the AAA Model, it is helpful to compare it with a widely used alternative: the trusted 60-40 portfolio. This portfolio has served as the allocation of choice for moderate risk investors, with a 60% allocation to Equities, to provide capital appreciation, and 40% allocation to high quality fixed income assets – to reduce risk and dampen volatility. Figure 2 shows the performance of the AAA Model versus three such portfolios, denominated in dollars, sterling and euros. As can be seen, **whilst there are fluctuations in performance, the AAA Model has easily beaten these traditional portfolios this year.** We believe that an Adaptive Asset Allocation approach will help investors better weather the economic storm in the years ahead compared to the traditional asset allocation approach.

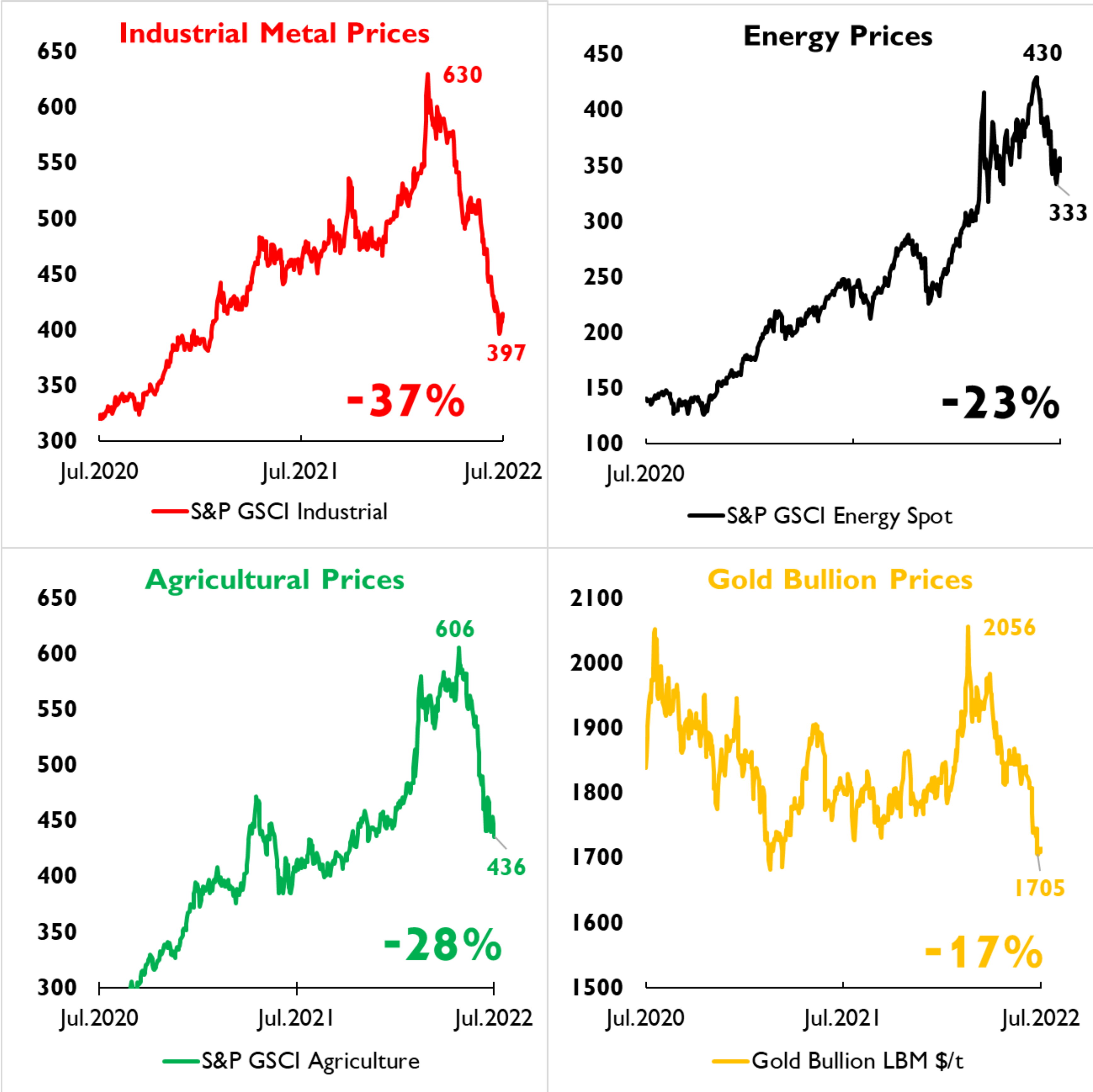
► Figure 2: **The AAA Model owing to its adaptive approach has better protected investor capital this year than the traditional 60-40 portfolio**



Source: The AAA Report, Refinitiv Datastream

Over the last month, commodities of all stripes have corrected (Figure 3), feeding through to the performance of the AAA Model. The sell-off in Industrial Metals has been the most rapid and pronounced as economic growth conditions have deteriorated and the risk of a global recession has escalated. As a result, both Industrial Metals and Agricultural Commodities have slipped out of the Strongest ranked Asset group. **Energy Commodities and Gold bullion** have also corrected (Figure 3) but **remain the cleanest dirty shirts in the commodity complex** for now. There is a risk that these assets will also tank further as interest rates rise, the dollar strengthens and global economic growth craters. However, for now they are clinging on and **we must continue to hold them.**

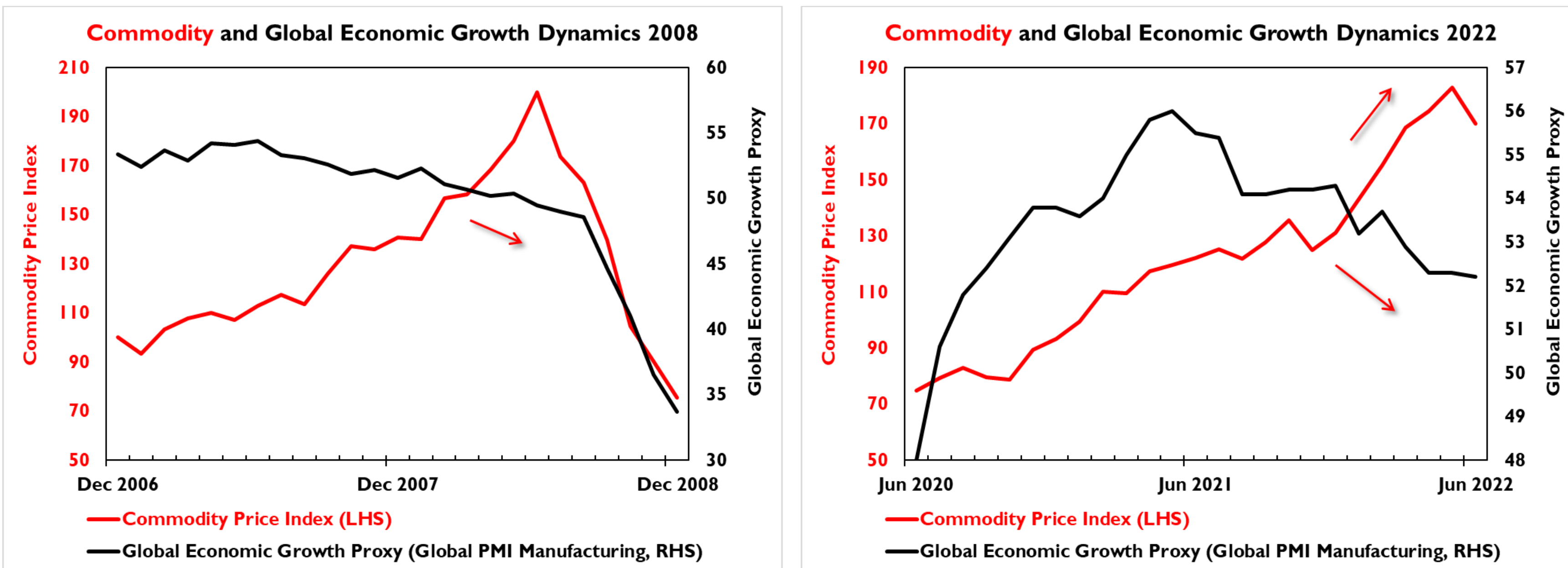
► Figure 3: **Commodities of all stripes have tanked over the last month**



Source: The AAA Report, Refinitiv Datastream

We saw something similar happen back in 2008. Leading up to the Great Financial Crisis, commodities were skyrocketing on the back of strong global inflation pressures. However, when it became abundantly clear that the global economy was headed for recession, investors began to dump them relentlessly, causing prices to crash (Figure 4 – left chart). **We are watching the sequel to this movie with commodity prices topping out and rolling over** (Figure 4 – right chart) as investor start to worry about the risk of an economic hard landing and the implications for commodity demand. With the first top in commodity prices, after a brief lag we could see the second fall as well. History never repeats exactly, but it does rhyme.

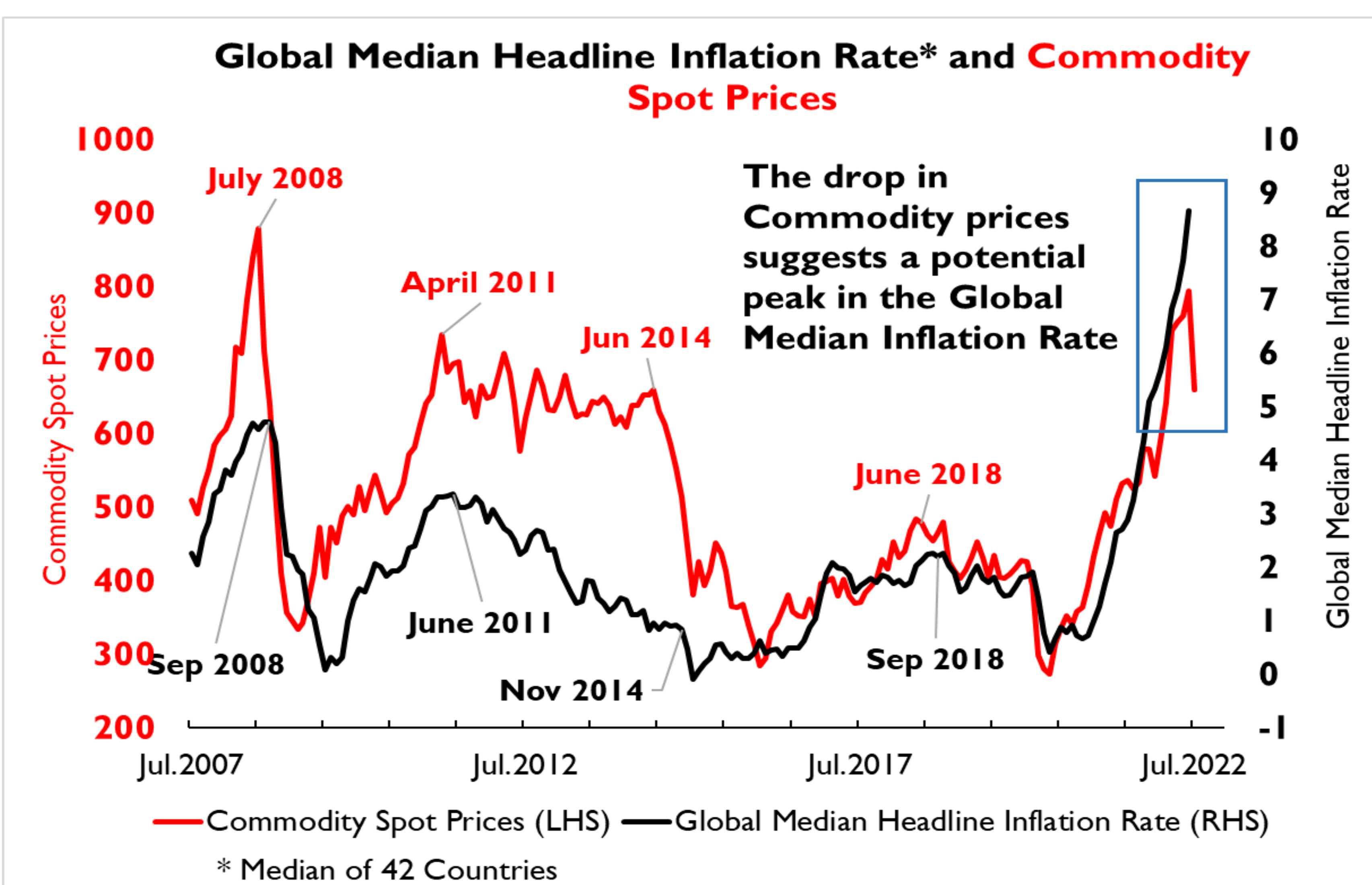
► **Figure 4: Back in 2008, Commodity prices crashed after economic growth cratered. We could be watching the sequel to this movie as commodity prices fall owing to global economic growth concerns**



Source: The AAA Report, Refinitiv Datastream

The sell-off in commodity prices could be signaling that global inflation pressures may have peaked. Over the last decade and a half, the global median headline inflation rate has closely tracked the broad trend in commodity prices (Figure 5). When the latter have been trending upwards, so has the global inflation rate and vice-versa. However, it has been normal for commodity prices to peak ahead of Global inflation rates by around 3 months (Figure 5), so **the top in Global Inflation may not appear for a few months**. Ideally, we would need to see a few consecutive prints of lower monthly inflation numbers to believe that the worst is behind us.

► **Figure 5: The drop in commodity prices could be suggesting that global inflation has peaked**



Source: The AAA Report, Refinitiv Datastream

For now, however, Central banks have little option but to keep hiking interest rates in the face of a global economy that is still burning red hot (Figure 6). The table below shows headline inflation rates in 40 major economies colour-coded with a heatmap to show when inflation is running [red] hot and when it's ice cold [blue]. With a median headline inflation rate of close to 9% and 83% of economies having registered an increase in their annual inflation rates over the last month, Central banks cannot afford to hit the pause button on rate hikes just yet. If they do, then there is a risk of high inflation lingering on for longer, spreading to other corners of the economy and becoming more entrenched.

► **Figure 6: Central banks have little option but to keep hiking interest rates in the face of a global economy that is still burning red hot with inflation**

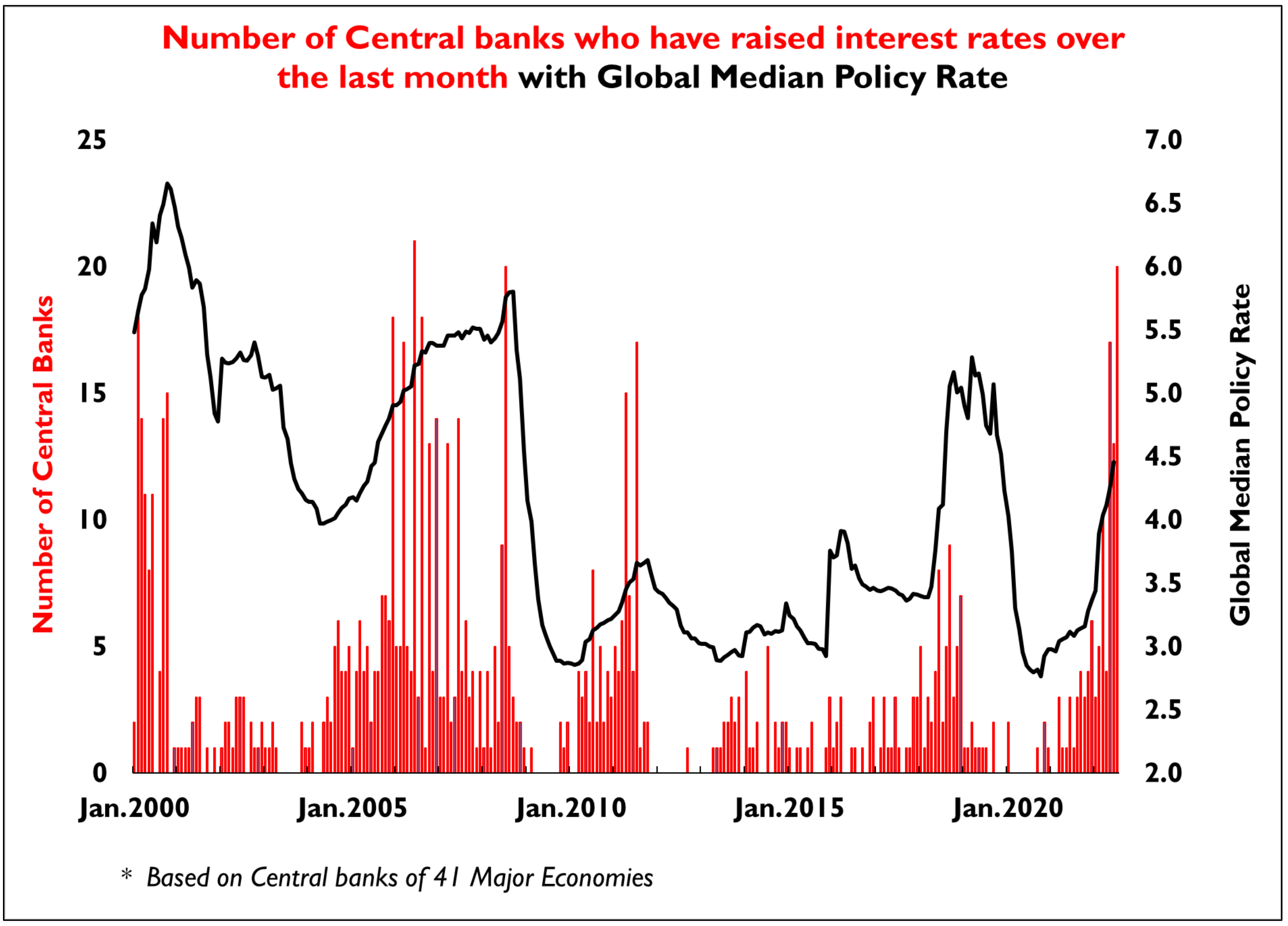
	Germany	Sweden	Spain	Denmark	Belgium	Slovenia	Netherland	Estonia	Portugal	Finland	Austria	Greece	Ireland	Poland	Slovakia	Italy	France	Brazil	Mexico	Turkey
Jan 2020	1.7	1.3	1.1	0.7	1.4	2.1	1.8	1.6	0.8	1.0	2.2	0.9	1.3	4.3	3.0	0.5	1.5	4.2	3.2	12.2
Feb 2020	1.7	1.0	0.7	0.8	1.1	2.0	1.6	2.0	0.4	0.8	2.2	0.2	1.1	4.7	2.9	0.3	1.4	4.0	3.7	12.4
Mar 2020	1.4	0.6	0.0	0.4	0.6	0.5	1.4	0.9	0.0	0.6	1.6	0.0	0.7	4.6	2.3	0.1	0.7	3.3	3.2	11.9
Apr 2020	0.9	-0.4	-0.7	0.0	0.6	-1.2	1.2	-0.8	-0.2	-0.3	1.5	-1.4	-0.1	3.4	2.1	0.0	0.3	2.4	2.1	10.9
May 2020	0.6	0.0	-0.9	0.0	0.5	-1.2	1.2	-1.7	-0.7	-0.2	0.8	-1.1	-0.5	2.9	2.0	-0.2	0.4	1.9	2.8	11.4
Jun 2020	0.9	0.7	-0.3	0.3	0.6	-0.3	1.6	-1.0	0.1	0.0	1.1	-1.6	-0.4	3.2	1.8	-0.2	0.2	2.1	3.3	12.6
Jul 2020	-0.1	0.5	-0.6	0.5	0.7	0.3	1.7	-0.9	0.1	0.6	1.6	-1.8	-0.4	3.0	1.8	-0.4	0.8	2.3	3.6	11.8
Aug 2020	0.0	0.8	-0.5	0.5	0.8	-0.1	0.7	-0.9	0.0	0.2	1.3	-1.9	-1.0	2.9	1.4	-0.5	0.2	2.4	4.0	11.8
Sep 2020	-0.2	0.4	-0.4	0.6	0.9	-0.3	1.1	-1.1	-0.1	0.2	1.3	-2.0	-1.2	3.1	1.4	-0.6	0.0	3.1	4.0	11.7
Oct 2020	-0.2	0.3	-0.8	0.4	0.7	-0.1	1.2	-1.5	-0.1	0.2	1.3	-1.8	-1.5	3.0	1.5	-0.3	0.0	3.9	4.1	11.9
Nov 2020	-0.3	0.2	-0.8	0.5	0.5	-0.9	0.8	-1.1	-0.2	0.2	1.2	-2.1	-1.1	3.0	1.5	-0.2	0.2	4.3	3.3	14.0
Dec 2020	-0.3	0.5	-0.5	0.5	0.4	-1.1	1.0	-0.8	-0.2	0.2	1.0	-2.3	-1.0	2.3	1.5	-0.2	0.0	4.5	3.2	14.6
Jan 2021	1.0	1.6	0.5	0.6	0.3	-0.7	1.6	0.2	0.3	0.9	0.7	-2.0	-0.2	2.7	0.7	0.4	0.6	4.6	3.5	15.0
Feb 2021	1.3	1.4	0.0	0.6	0.5	-1.0	1.8	0.6	0.5	0.9	1.1	-1.3	-0.4	2.5	0.9	0.6	0.6	5.2	3.8	15.6
Mar 2021	1.7	1.7	1.3	1.0	0.9	0.1	1.9	1.1	0.5	1.3	1.9	-1.6	0.0	3.3	1.4	0.8	1.1	6.1	4.7	16.2
Apr 2021	2.0	2.2	2.2	1.5	1.2	2.1	1.9	1.9	0.6	2.1	1.8	-0.3	1.1	4.2	1.6	1.1	1.2	6.8	6.1	17.1
May 2021	2.5	1.8	2.7	1.7	1.5	2.1	2.1	3.6	1.2	2.2	2.8	0.1	1.7	4.8	2.2	1.3	1.4	8.1	5.9	16.6
Jun 2021	2.3	1.3	2.7	1.7	1.6	1.4	2.0	3.8	0.5	2.0	2.7	1.0	1.6	4.3	2.9	1.3	1.5	8.3	5.9	17.5
Jul 2021	3.8	1.4	2.9	1.6	2.3	2.0	1.4	5.0	1.5	1.9	2.9	1.4	2.2	4.9	3.3	1.9	1.2	9.0	5.8	19.0
Aug 2021	3.9	2.1	3.3	1.8	2.7	2.1	2.4	5.0	1.5	2.2	3.2	1.9	2.8	5.4	3.8	2.0	1.9	9.7	5.6	19.3
Sep 2021	4.1	2.5	4.0	2.2	2.9	2.4	2.7	6.6	1.5	2.5	3.2	2.2	3.7	5.9	4.6	2.5	2.2	10.2	6.0	19.6
Oct 2021	4.5	2.8	5.4	3.0	4.2	3.0	3.4	7.0	1.8	3.2	3.6	3.4	5.1	7.0	5.1	3.0	2.6	10.7	6.2	19.9
Nov 2021	5.2	3.3	5.5	3.4	5.6	4.6	5.2	8.8	2.6	3.7	4.1	4.8	5.3	7.9	5.6	3.7	2.8	10.7	7.4	21.3
Dec 2021	5.3	3.9	6.6	3.1	5.7	4.9	5.7	12.2	2.7	3.5	4.3	5.1	5.5	8.8	5.8	3.9	2.8	10.1	7.4	36.1
Jan 2022	4.9	3.7	6.1	4.3	7.6	5.8	6.4	11.3	3.3	4.4	5.0	6.2	5.0	9.4	8.4	4.8	2.9	10.4	7.1	48.7
Feb 2022	5.1	4.3	7.6	4.8	8.0	6.9	6.2	12.0	4.2	4.5	5.8	7.2	5.6	8.6	9.0	5.7	3.6	10.5	7.3	###
Mar 2022	7.3	6.0	9.8	5.4	8.3	5.4	9.7	15.2	5.3	5.8	6.8	8.9	6.7	11.1	10.4	6.5	4.5	11.3	7.5	61.1
Apr 2022	7.4	6.4	8.3	6.7	8.3	6.9	9.6	18.8	7.2	5.7	7.2	10.2	7.0	12.4	11.7	6.0	4.8	12.1	7.7	###
May 2022	7.9	7.3	8.7	7.4	9.0	8.1	8.8	###	8.0	7.0	7.7	11.3	7.8	14.0	12.6	6.8	5.2	11.7	7.7	73.5
Jun 2022	7.6	8.7	10.2	8.2	9.6	10.4	8.6	21.9	8.7	7.8	8.7	12.1	9.1	15.6	13.3	8.0	5.8	11.9	8.0	78.6

	Chile	S.Africa	Russia	Czech Rep.	Hungary	Japan	UK	US	Canada	China	India	New Zealand	Australia	South Korea	Indonesia	Switzerland	Norway	Iceland	Israel	G7	Median
Jan 2020	3.5	4.6	2.4	3.6	4.7	0.8	1.8	2.5	2.4	3.6	7.6	2.1	1.8	1.2	2.7	0.2	1.8	1.7	0.3	2.0	1.8
Feb 2020	3.9	4.7	2.3	3.7	4.4	0.6	1.7	2.3	2.2	3.6	6.6	2.3	1.6	0.9	3.0	-0.1	0.9	2.4	0.1	1.9	1.9
Mar 2020	3.7	4.1	2.6	3.4	3.9	0.6	1.5	1.5	0.9	2.0	5.8	2.5	1.5	0.8	3.0	-0.5	0.7	2.1	0.0	1.3	1.4
Apr 2020	3.4	3.0	3.1	3.2	2.4	0.2	0.8	0.3	-0.2	0.8	7.2	2.2	1.2	0.0	2.7	-1.1	0.8	2.2	-0.6	0.4	0.8
May 2020	2.8	2.0	3.0	2.9	2.2	0.1	0.5	0.1	-0.4	-0.3	6.3	1.8	0.1	-0.2	2.2	-1.3	1.3	2.5	-1.6	0.2	0.4
Jun 2020	2.6	2.2	3.2	3.3	2.8	0.1	0.6	0.6	0.7	-0.2	6.2	1.5	0.7	0.2	2.0	-1.3	1.4	2.6	-1.1	0.5	0.7
Jul 2020	2.5	3.2	3.4	3.4	3.8	0.2	1.0	1.0	0.1	-0.1	6.7	1.5	1.3	0.4	1.5	-0.9	1.3	3.0	-0.6	0.7	0.9
Aug 2020	2.4	3.1	3.6	3.3	3.9	0.1	0.2	1.3	0.1	-0.4	6.7	1.4	1.3	0.8	1.3	-0.9	1.7	3.2	-0.8	0.8	0.8
Sep 2020	3.1	3.0	3.7	3.2	3.4	-0.2	0.5	1.4	0.5	-1.3	7.3	1.4	1.3	0.9	1.4	-0.8	1.6	3.5	-0.7	0.8	0.9
Oct 2020	2.9	3.3	4.0	2.9	3.0	-0.6	0.7	1.2	0.7	-3.2	7.6	1.4	1.1	0.1	1.4	-0.6	1.7	3.6	-0.8	0.7	0.7
Nov 2020	2.7	3.2	4.5	2.7	2.7	-1.0	0.3	1.2	1.0	-4.8	6.9	1.4	1.4	0.6	1.6	-0.7	0.7	3.5	-0.6	0.6	0.7
Dec 2020	3.0	3.1	4.9	2.3	2.7	-1.2	0.6	1.4	0.7	-4.1	4.6	1.4	1.5	0.6	1.7	-0.8	1.4	3.6	-0.7	0.7	0.7
Jan 2021	3.1	3.2	5.2	2.2	2.7	-0.7	0.7	1.4	1.0	-5.4	4.1	1.5	1.5	0.9	1.6	-0.5	2.5	4.3	-0.4	1.0	1.0
Feb 2021	2.8	2.8	5.7	2.1	3.1	-0.5	0.4	1.7	1.1	-5.1	5.0	1.5	1.6	1.4	1.4	-0.5	3.3	4.1	0.0	1.2	1.3
Mar 2021	2.9	3.2	5.8	2.3	3.7	-0.4	0.7	2.6	2.2	-3.7	5.5	1.5	1.8	1.9	1.4	-0.2	3.1	4.3	0.2	1.9	1.7
Apr 2021	3.3	4.4	5.5	3.1	5.1	-1.1	1.5	4.2	3.4	-2.3	4.2	2.1	2.3	2.5	1.4	0.3	3.0	4.6	0.8	2.8	2.1
May 2021	3.6	5.2	6.0	2.9	5.1	-0.7	2.1	5.0	3.6	-1.1	6.3	2.7	3.3	2.6	1.7	0.6	2.7	4.5	1.5	3.5	2.7
Jun 2021	3.8	4.9	6.5	2.8	5.3	-0.4	2.5	5.4	3.1	-1.4	6.3	3.3	3.0	2.3	1.3	0.6	2.9	4.3	1.7	3.7	2.7
Jul 2021	4.5	4.7	6.5	3.4	4.6	-0.3	2.0	5.4	3.7	-1.7	5.6	3.9	2.6	2.6	1.5	0.7	3.0	4.3	1.9	3.9	2.9
Aug 2021	4.8	4.9	6.7	4.1	4.9	-0.4	3.2	5.3	4.1	-1.6	5.3	4.4	2.5	2.6	1.6	0.9	3.4	4.3	2.2	4.0	3.3
Sep 2021	5.3	5.0	7.4	4.9	5.5	0.2	3.1	5.4	4.4	-1.0	4.3	4.9	2.7	2.4	1.6	0.9	4.1	4.3	2.5	4.2	3.9
Oct 2021	6.0	5.0	8.1	5.8	6.4	0.1	4.2	6.2	4.7	1.0	4.5	5.3	3.1	3.2	1.7	1.2	3.5	4.6	2.3	4.8	4.3
Nov 2021	6.7	5.4	8.4	6.0	7.4	0.6	5.1	6.8	4.7	2.8	4.9	5.6	3.1	3.8	1.7	1.5	5.1	4.8	2.4	5.4	5.1
Dec 2021	7.2	5.9	8.4	6.6	7.4	0.8	5.4	7.0	4.8	1.3	5.7	5.9	2.8	3.7	1.9	1.5	5.3	5.1	2.8	5.6	5.4
Jan 2022	7.7	5.7	8.7	9.9	7.9	0.5	5.5	7.5	5.1	1.2	6.0	6.3	3.0	3.6	2.2	1.6	3.2	5.6	3.1	5.8	5.7
Feb 2022	7.8	5.7	9.2	11.1	8.3	0.9	6.2	7.9	5.7	1.1	6.1	6.6	3.5	3.7	2.1	2.2	3.7	6.2	3.5	6.3	6.1
Mar 2022	9.4	5.9	16.7	12.7	8.5	1.2	7.0	8.5	6.7	1.1	7.0	6.9	4.0	4.1	2.6	2.4	4.5	6.7	3.5	7.1	6.8
Apr 2022	10.5	5.9	17.9	14.2	9.5	2.4	9.0	8.3	6.8	1.2	7.8	7.1	3.4	4.8	3.5	2.5	5.4	7.2	4.0	7.1	7.2
May 2022	11.5	6.5	17.1	16.0	10.7	2.4	9.1	8.6	7.7	0.8	7.0	7.2	4.8	5.4	3.6	2.9	5.7	7.6	4.1	7.5	7.7
Jun 2022	12.5	7.4	15.9	17.2	11.7	2.3	9.4	9.1	8.1	1.4	7.0	7.3	4.7	6.0	4.3	3.4	6.3	8.8	4.4	n/a	8.7

Source: The AAA Report, Refinitiv Datastream

Tracking the number of Central banks who have raised interest rates over the last month, what stands out is the speed and magnitude of global central bank tightening (Figure 7). This is not entirely a surprise. Having seriously underestimated the worst inflation outbreak in decades, policy makers now believe that the only hope they have of breaking the back of inflation and restoring confidence is by rapidly hiking interest rates and in serious measure. Until global inflation pressures show clear signs of peaking, we believe we can expect more of the same.

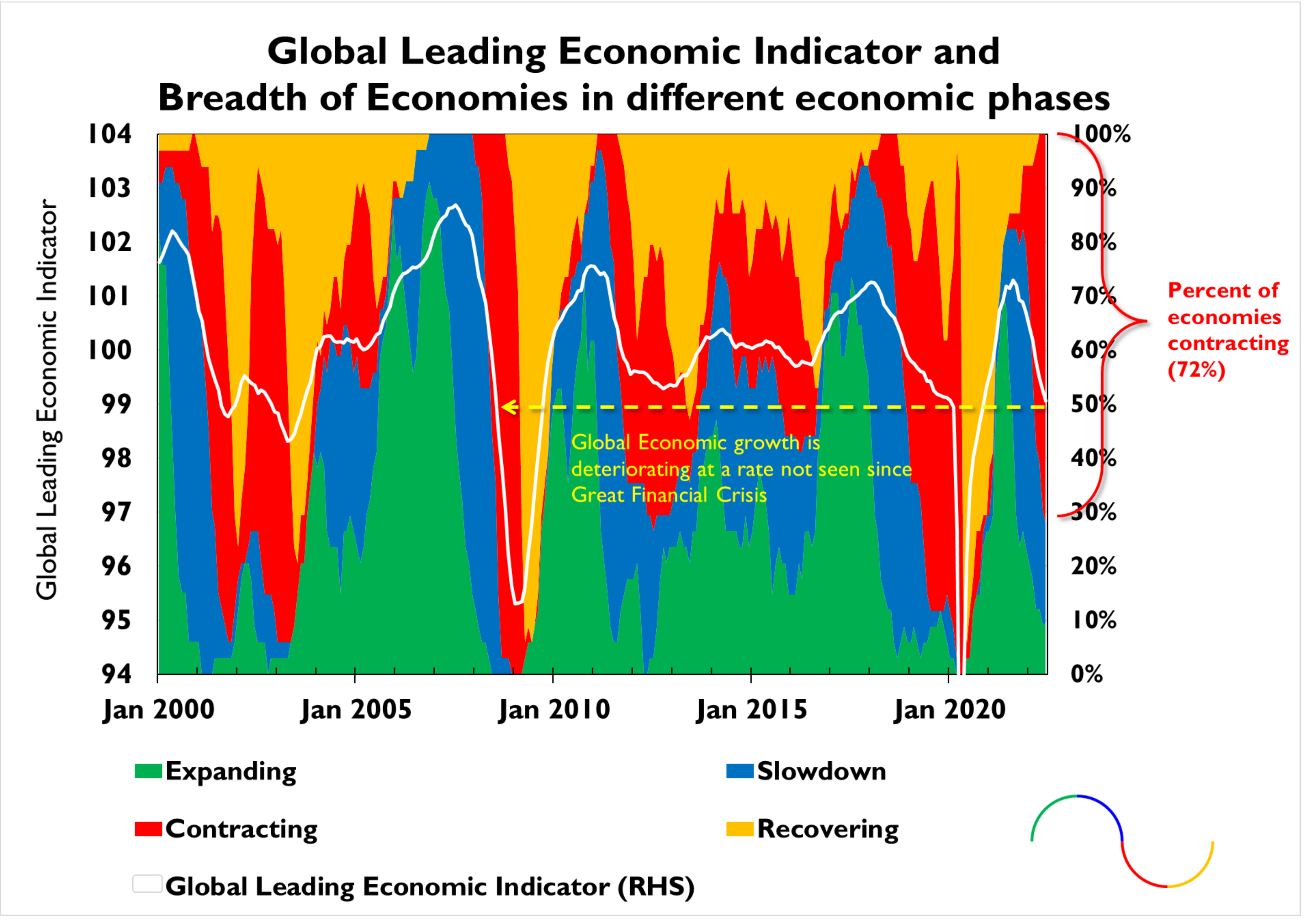
► **Figure 7: Central banks are pushing ahead with aggressive interest-rate hikes to reign in the inflation beast**



Source: The AAA Report, Refinitiv Datastream

Unfortunately, there is no free lunch – **a global recession is the price that central banks will have to pay for beating inflation.** Normally, the medicine that central bankers prescribe to an economic slowdown is easier monetary policy by way of interest rates cuts. This time around, they are tightening policy into a global economic slowdown, causing **growth to deteriorate at a rate not seen since the global financial crisis** [excluding the pandemic lockdown]. With the vast majority of economies in contraction (Figure 8), the risk of a global recession has increased. Further interest rate hikes will only make the situation worse.

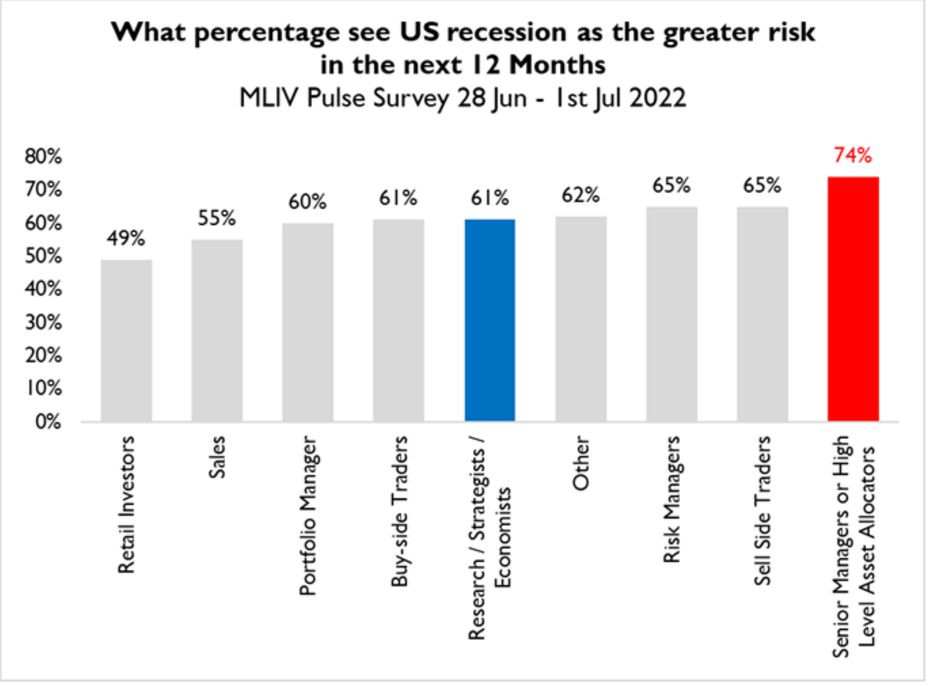
► **Figure 8: Leading Economic Indicators suggest that Global economic growth is deteriorating at a rate not seen since the global financial crisis with the vast majority of economies contracting**

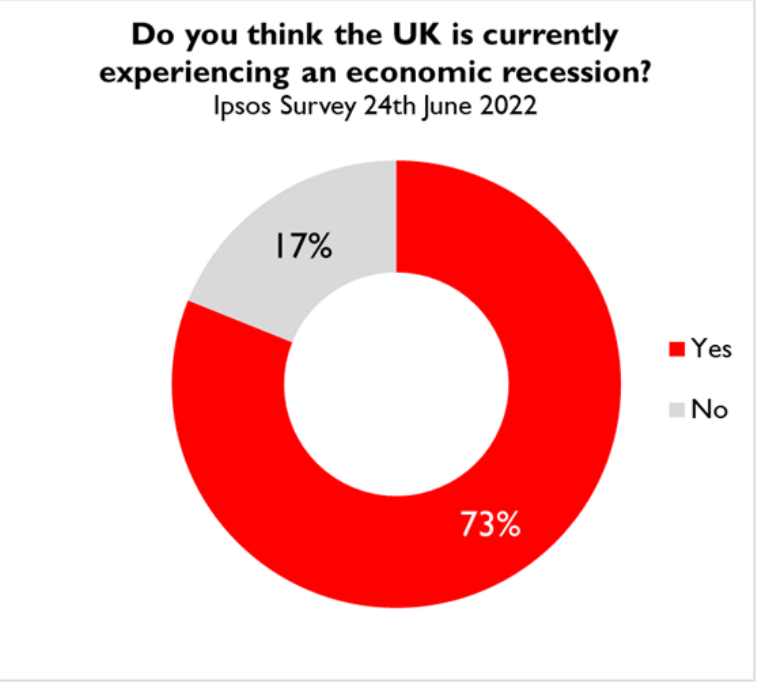


Source: The AAA Report, Refinitiv Datastream

Most Americans and Brits have a sense that things are bad and about to become worse. According to the MLIV Pulse Survey, conducted by Bloomberg between 28th June and 1st July 2022, **over 70% of Senior Managers or high-level asset allocators believe the US economy will be in recession in a year from now** (Figure 9 – left chart). These individuals are well informed and make investment decisions based on their view of the economy. Even economists and strategists place the odds of a US recession at over 50% (Figure 9 – left chart). In the UK, according to Ipsos, **3-in-every-4 Brits think the UK economy is already experiencing a recession** (Figure 9 – right chart).

► **Figure 9: Senior Managers and high-level asset allocators believe the US Economy will be in recession in a year whereas most Brits think the UK Economy is already mired in recession**

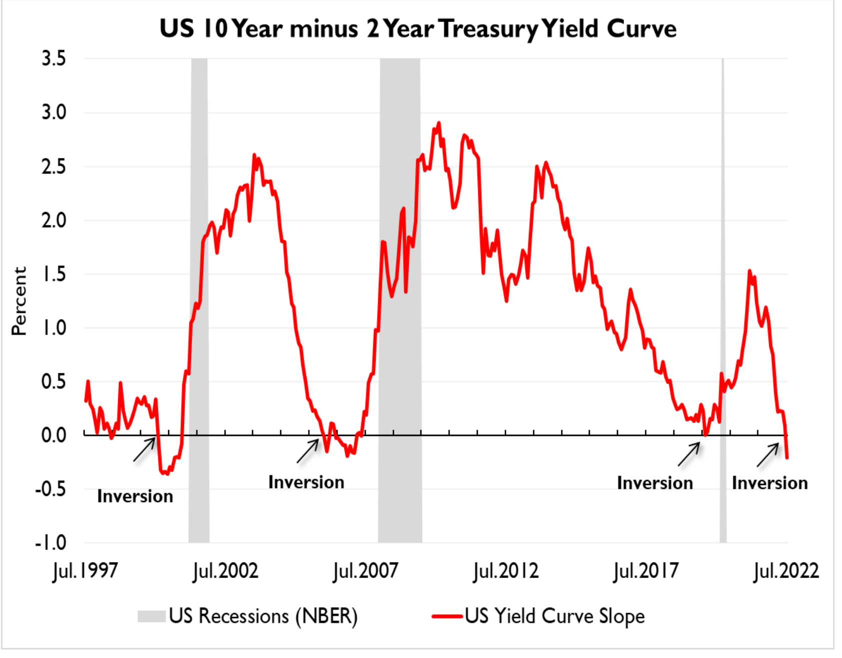


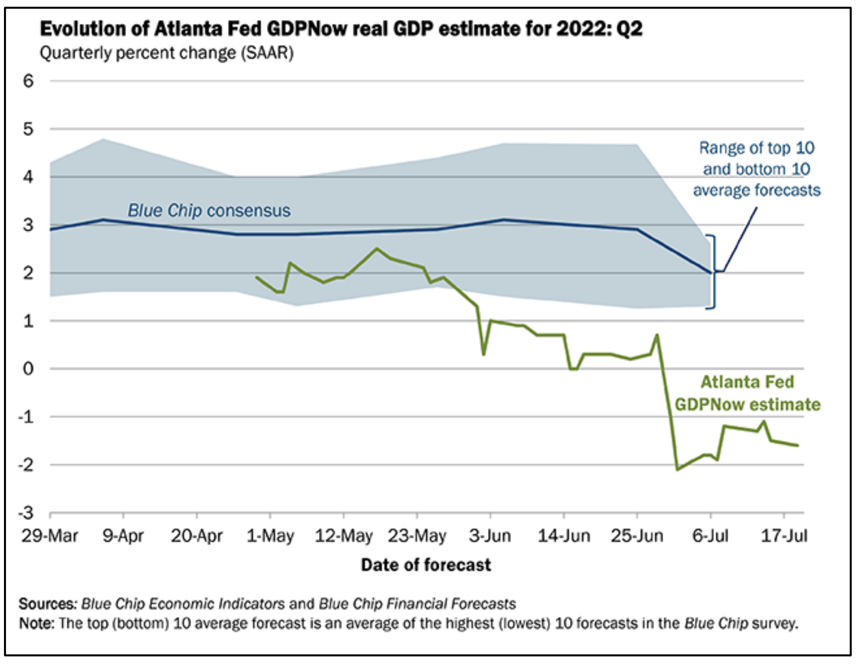


Source: The AAA Report, MLIV Pulse Survey (28 Jun – 1st Jul 2022), Ipsos Survey

In the USA, **an inverted yield curve has normally proven to be a reliable leading indicator of recessions.** Measured as the difference between the yield on long-term and short-term US government bonds, **the curve is now the most inverted since 2000** (Figure 10 – left chart) wildly signaling that a recession is coming. At the same time, the Federal Reserve's own real-time tracker of economic growth − the Atlanta Fed GDPNow − sees Q2 economic output contracting by around 2% (Figure 10 – right chart). When coupled with the Q1 GDP decline of 1.6% this fits the technical definition of a recession. The bottom line is that **however you slice it or dice it, the odds a US recession have significantly increased.**

► **Figure 10: The US Yield curve is inverted signaling an impending recession and the Atlanta Fed GDPNow tracker sees Q2 economic output contracting by around 2%**

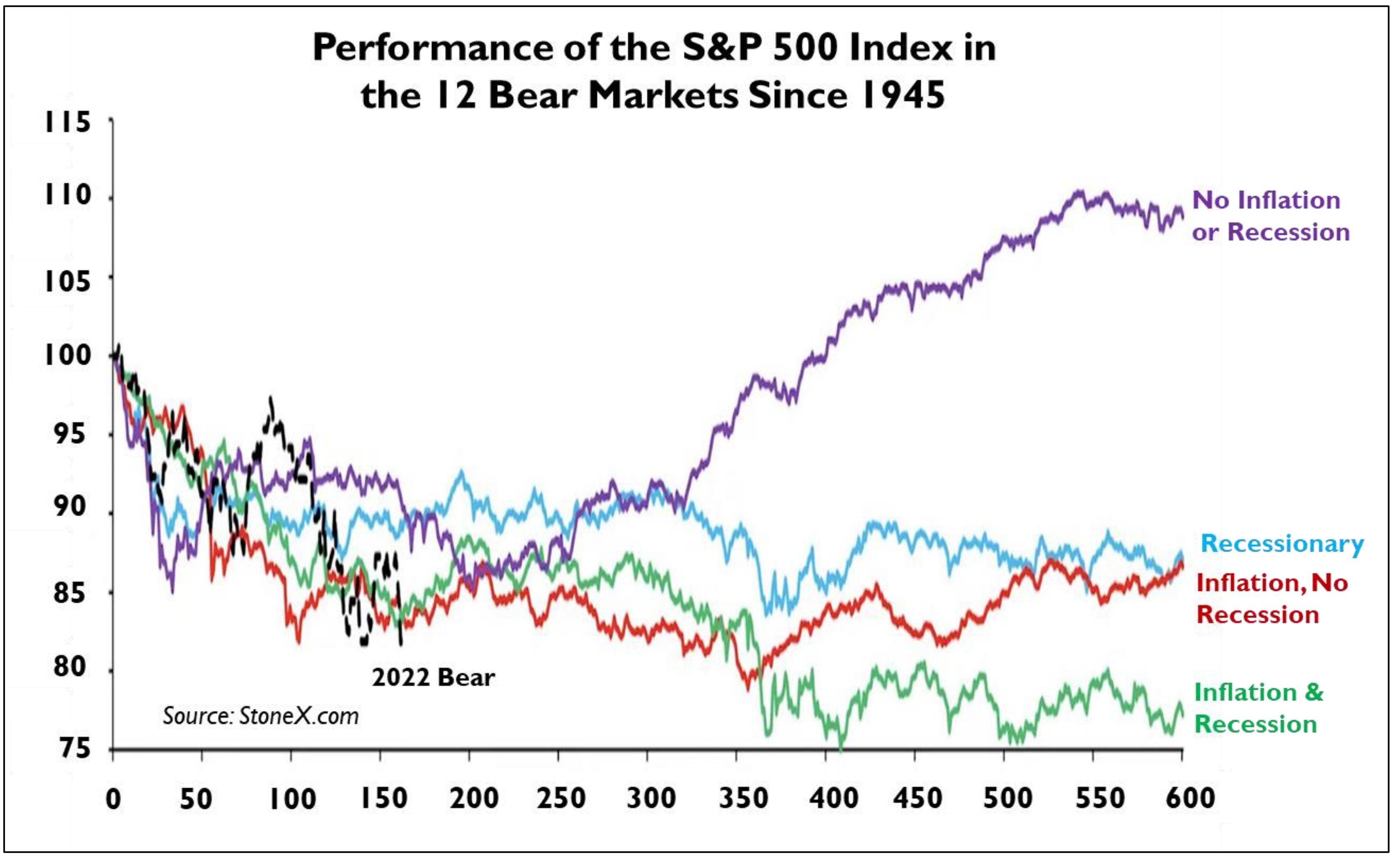




Source: The AAA Report, Atlanta Fed GDPNow, Refinitiv Datastream

With the US and global economy hurtling towards recession, **global equity markets remain entrenched in a bear market**. Looking back at history, we find that **not all bear markets are made equal** (Figure 11). Some have occurred against the economic backdrop of no recession or inflation. Others have had one or the other ingredient, but not both together. **The ones that tended to occur when there was both recession and inflation** – as we are experiencing now – **have been the most brutal** (Figure 11 – green line). If history repeats, then this bear market has legs, and we need to survive.

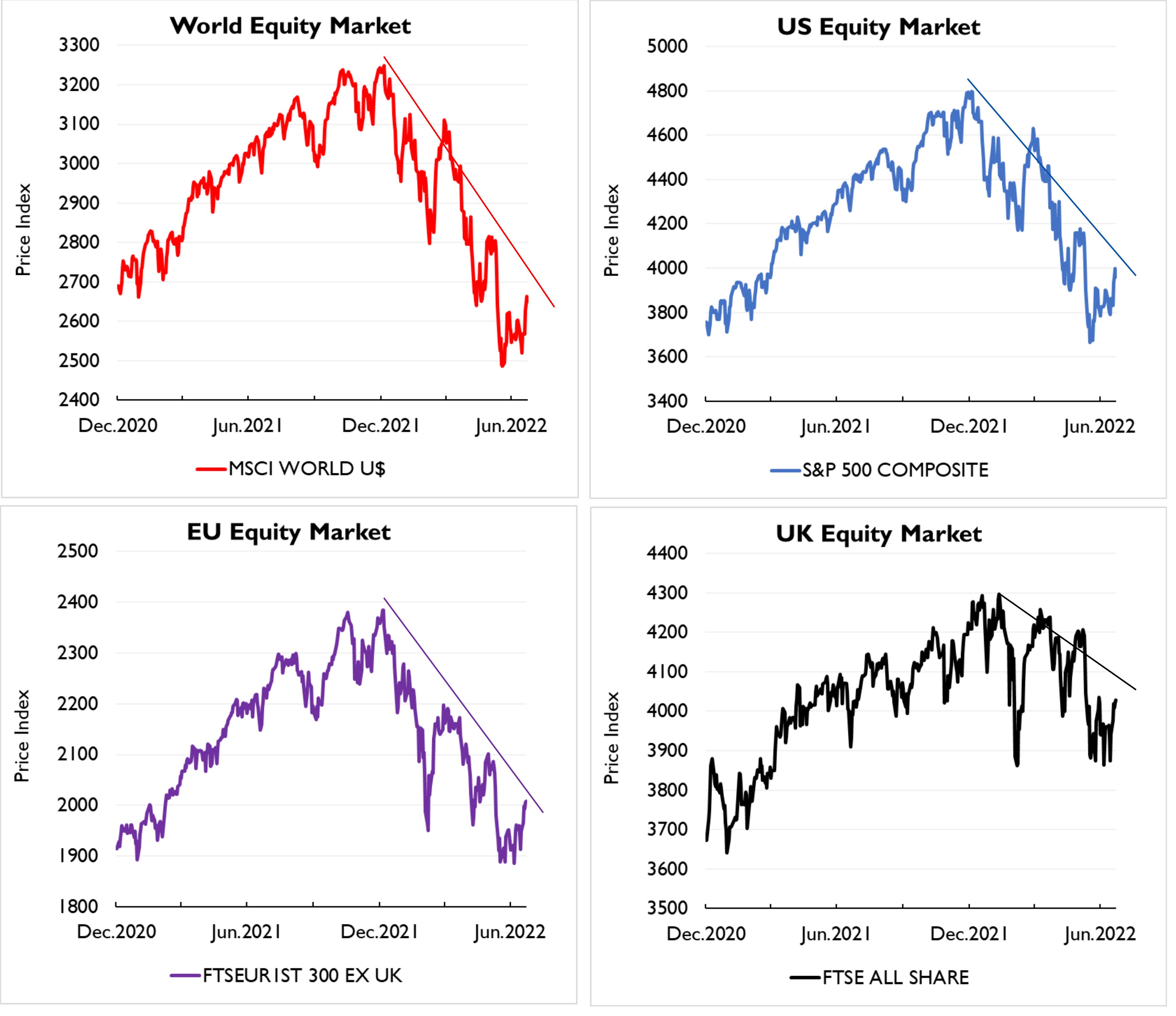
► **Figure 11: Bear markets that are defined by an inflation and recessionary backdrop are more brutal than other bear markets**



Source: The AAA Report, StoneX.com

All bear markets have rallies. Whichever equity market we look at, we can see that **such rallies are taking place** (Figure 12), yet the bear continues to growl and get worse. We **expect further rallies but do not want to trade them**. Some of the swings can be strong and last long enough to fool many people. We will stick with the AAA Model instead. We do not want any country equity markets or bonds and want to own selective commodities but lots of cash. We are making some money even though economic conditions are tough. Preserve capital. This will keep us in good shape for when times get better. **The AAA Model has an edge - run with it.** Best wishes and good luck.

► **Figure 12: Most equity markets are rallying but are still in a bear market**



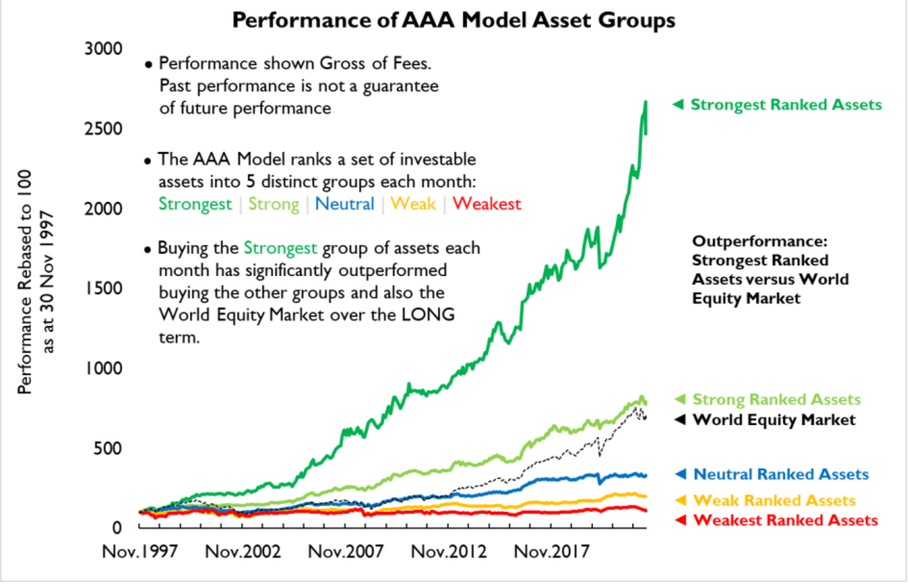
Source: The AAA Report, Refinitiv Datastream

►Model Guide: What is the AAA model and how to use it?

- The AAA model is a technical model which ranks a list of important assets using our proprietary *Business Cycle Adaptive Trend* ranking algorithm.
- As different assets outperform at different stages of the business cycle*, the AAA model aims to identify which are the strongest and weakest trending assets at each phase of the business cycle.
- The model is run monthly and outputs the complete list of ranked assets divided into 5 distinct groups based on their trend-strength: Strongest, Strong, Neutral, Weak and Weakest.
- Whilst we will show the complete list of ranked assets as a table in the Appendix (Figure B), the assets to buy each month are the ones labelled as "STRONGEST".
- The chart below (Figure A) shows the difference in performance between buying the assets labelled as Strongest each month compared to buying the others [Strong, Neutral, Weak and Weakest]. The main point to take away from this chart is that the Strongest trending assets significantly outperform the other groups over the long term hence are the ones to buy. Of course, investors also need to bear in mind that **past performance is never a guarantee of future results.**
- The rankings are updated monthly and any changes to the rankings need to be mirrored in your portfolio [buy any assets that are promoted to the Strongest asset group each month and sell any that have left the group]. These trends do not change as rapidly as those for individual shares and typically means holding four assets each month.
- The strongest assets can be purchased using Exchange Traded Funds (ETFs) or Managed Funds. A representative sample of the former is shown in the Appendix for illustration purposes however this list should not be considered recommendations.

* Greed assets [risk assets] generally do better in times of economic expansion and investor risk-adoration. Conversely, Fear assets [defensive assets] generally do better in times of economic contraction and investor risk-aversion.

► Figure A: Buying the Strongest ranked assets has significantly outperformed the other groups over the long term



► Figure B: The AAA Model ranks a list of key assets each month but only the Strongest assets should be bought

	July 2022	Representative ETF Name Distributing ETF Name; Accumulating ETF Name	Representative ETF Ticker Distributing*	 Accumulating*
Strongest	Energy Commodities	No Distributing ETF ; ETFS Commodity Securities Energy DJ-UBSCI	-	AIGE
	Gold Bullion	No Distributing ETF ; ETFS Physical Gold	-	PHGP
	World Low Volatility Equities	No Distributing ETF ; iShares Edge MSCI World Minimum Volatility UCITS ETF	-	MVOL
	UK Cash	No Distributing ETF ; No Accumulating ETF	-	-
Strong	Agricultural Commodities	No Distributing ETF ; ETFS Commodity Securities Agriculture Dow Jones UBS CI	-	AGAP
	Inverse UK Equities	No Distributing ETF ; DB X-TRACKERS FTSE 100 SHORT DAILY ETF	-	XUKS
	India Equities	No Distributing ETF ; DB X-TRACKERS MSCI India Index UCITS ETF ACC	-	XCX5
	UK Equities	iShares Core FTSE 100 UCITS ETF DIST ; SPDR FTSE UK All Share UCITS ETF	ISF	FTAL
	Global Govt Bond	iShares Global Govt. Bond (USD) DIST UCITS ETF ; iShares Global Govt Bond UCITS (ACC) ETF	SGLO	IGLA
Neutral	US Equities	iShares S&P 500 UCITS ETF USD DIST ; ISHRS Core S&P 500 UCITS USD (ACC) ETF	IUSA	CSP1
	Global High yield	iShares Global High Yield Corp. Bond UCITS ETF DIST ; iShares Global High Yield Corp. Bond UCITS ETF ACC	IGHY	HYLA
	Industrial Metals	No Distributing ETF ; ETFS Industrial Metals ETC	-	AIGI
	EM Govt. Bonds ($)	iShares J.P. Morgan USD EM Bond UCITS ETF DIST ; iShares J.P. Morgan USD EM Bond UCITS ETF ACC	SEMB	JPEA
	Japan Equities	iShares MSCI Japan UCITS ETF DIST ; iShares Core MSCI Japan IMI UCITS ETF ACC	IJPN	SJPA
Weak	EM Equities	Vanguard FTSE Emerging Markets UCITS ETF USD ; No Accumulating ETF	VFEM	-
	China Equities	HSBC MSCI CHINA ETF ; No Accumulating ETF	HMCH	-
	World Equities	iShares MSCI World UCITS ETF USD DIST ; iShares Core MSCI World UCITS ETF USD ACC	IWRD	SWDA
	World Quality Equities	No Distributing ETF ; iShares Edge MSCI World Quality Factor UCITS ETF	-	IWFQ
	UK Corporate Bonds	iShares Core £ Corp Bond GBP UCITS ETF ; No Accumulating ETF	SLXX	-
Weakest	EU Equities	iShares MSCI Europe ex UK UCITS ETF EUR (DIST) ; iShares MSCI EMU UCITS ETF ACC	IEUX	CEU1
	UK Gilts	iShares Core UK Gilts UCITS ETF GBP ; No Accumulating ETF	IGLT	-
	Global Corporate Bonds	iShares Global Corp Bond UCITS (USD) DIST ; iShares Global Corp Bond UCITS (USD) ACC	CRPS	CRPA
	UK Index Linked Gilts	iShares Index Linked Gilts UCITS ETF ; No Accumulating ETF	INXG	-

* *Distributing* units pay out dividends and income whilst *Accumulating* units reinvest it. Please select the ones that suit you. In some cases only one option is available.

Appendix

AAA Model Rankings GBP Portfolio with representative ETF Tickers

	July 2022	Representative ETF Name Distributing ETF Name; Accumulating ETF Name	Representative ETF Ticker	
			Distributing*	Accumulating*
Strongest	Energy Commodities	No Distributing ETF ; ETFS Commodity Securities Energy DJ-UBSCI	-	AIGE
	Gold Bullion	No Distributing ETF ; ETFS Physical Gold	-	PHGP
	World Low Volatility Equities	No Distributing ETF ; iShares Edge MSCI World Minimum Volatility UCITS ETF	-	MVOL
	UK Cash	No Distributing ETF ; No Accumulating ETF	-	-
Strong	Agricultural Commodities	No Distributing ETF ; ETFS Commodity Securities Agriculture Dow Jones UBS CI	-	AGAP
	Inverse UK Equities	No Distributing ETF ; DB X-TRACKERS FTSE 100 SHORT DAILY ETF	-	XUKS
	India Equities	No Distributing ETF ; DB X-TRACKERS MSCI India Index UCITS ETF ACC	-	XCX5
	UK Equities	iShares Core FTSE 100 UCITS ETF DIST ; SPDR FTSE UK All Share UCITS ETF	ISF	FTAL
	Global Govt Bond	iShares Global Govt. Bond (USD) DIST UCITS ETF ; iShares Global Govt Bond UCITS (ACC) ETF	SGLO	IGLA
Neutral	US Equities	iShares S&P 500 UCITS ETF USD DIST ; ISHRS Core S&P 500 UCITS USD (ACC) ETF	IUSA	CSP1
	Global High yield	iShares Global High Yield Corp. Bond UCITS ETF DIST ; iShares Global High Yield Corp. Bond UCITS ETF ACC	IGHY	HYLA
	Industrial Metals	No Distributing ETF ; ETFS Industrial Metals ETC	-	AIGI
	EM Govt. Bonds ($)	iShares J.P. Morgan USD EM Bond UCITS ETF DIST ; iShares J.P. Morgan USD EM Bond UCITS ETF ACC	SEMB	JPEA
	Japan Equities	iShares MSCI Japan UCITS ETF DIST ; iShares Core MSCI Japan IMI UCITS ETF ACC	IJPN	SJPA
Weak	EM Equities	Vanguard FTSE Emerging Markets UCITS ETF USD ; No Accumulating ETF	VFEM	-
	China Equities	HSBC MSCI CHINA ETF ; No Accumulating ETF	HMCH	-
	World Equities	iShares MSCI World UCITS ETF USD DIST ; iShares Core MSCI World UCITS ETF USD ACC	IWRD	SWDA
	World Quality Equities	No Distributing ETF ; iShares Edge MSCI World Quality Factor UCITS ETF	-	IWFQ
	UK Corporate Bonds	iShares Core £ Corp Bond GBP UCITS ETF ; No Accumulating ETF	SLXX	-
Weakest	EU Equities	iShares MSCI Europe ex UK UCITS ETF EUR (DIST) ; iShares MSCI EMU UCITS ETF ACC	IEUX	CEU1
	UK Gilts	iShares Core UK Gilts UCITS ETF GBP ; No Accumulating ETF	IGLT	-
	Global Corporate Bonds	iShares Global Corp Bond UCITS (USD) DIST ; iShares Global Corp Bond UCITS (USD) ACC	CRPS	CRPA
	UK Index Linked Gilts	iShares Index Linked Gilts UCITS ETF ; No Accumulating ETF	INXG	-

* *Distributing* units pay out dividends and income whilst *Accumulating* units reinvest it. Please select the ones that suit you. In some cases only one option is available.

Source: The AAA Report, Refinitiv Datastream

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