
Keeping you up to date with financial markets
and Frame Funds.



August 2022 // Issue 18

IN THE FRAME

CENTRAL BANK WATCH

FUND PERFORMANCE

How our strategies performed in July

INTEREST RATE MARKET EXPECTATIONS

When to expect a rate cut in 2023

WHAT I SAW

JULY 2022

WRITTEN BY HUE FRAME

In this issue of 'What I saw', Hue covers recent market performance, which Global Central Banks increased interest rates last month, recent energy price increases, and how our strategies performed in July.

During July, global equity markets experienced a relief rally, as most global equity markets bounced from very oversold states. Fixed income markets continued to remain undecided about the future path of inflation and interest rates, while commodity markets oscillated between a slow-down of global growth, and a hope that global central banks will ease up on the current tightening cycle.

Central bank watch

Central Banks continued to take action to contain inflation by increasing interest rates. During July we saw the RBA and the RBNZ raise their official cash rates by 0.50%. Canada raised their overnight rate by 1.00%. The ECB increased their rate by 0.50% and the US Federal Reserve raised their rate by 0.75%.

FOMC meeting

On the 28th July, the FOMC met and decided to increase interest rates by 0.75%, the second increase of 0.75% in a row. Although this 0.75% increase was in line with the forecasted rate rise, the crucial information was contained within the FOMC press conference.

Chairman Powell stated that there is some evidence that the raising of interest rates is slowing down economic activity, however these interest rate increases can take some time to flow through. When asked about a recession, Powell, stated that the risk is doing too little versus doing too much (rate increases). He also stated that the path to a soft landing has narrowed, i.e. a global recession is probable vs possible.

Energy price increases

Everyone has heard about rising energy prices in Europe, but we are now seeing this here. Frame Funds received our office electricity bill during July...compared to the same period last year, it rose by 42%!



HUE FRAME
Managing Director & Portfolio Manager

A MESSAGE FROM HUE

Portfolio performance

During July, both strategies rose as there was some respite to the selling pressure seen in previous months. Volatility and uncertainty remained high over the month. Both the long short Australian equity strategy and the global macro strategy rose by +1.27% and +0.595% respectively.

Top equity contributors for the Frame Long Short Australian Equity Fund (**FLSAEF**) were Domain Holdings Australia Ltd (**ASX: DHG**), National Australia Bank Ltd (**ASX: NAB**), and Aurizon Holdings Ltd (**ASX: AZJ**) which added +0.11%, +0.09%, and +0.07% respectively.

Largest detractors for the month were Orora Ltd (**ASX: ORA**) and Atlas Arteria Group (**ASX: ALX**), which cost -0.21% and -0.15% respectively.

For the Frame Futures Fund (**FFF**), Equity investments rose by +1.12%. Currency and Commodity investments declined by -0.47% and -0.05% respectively, and Fixed Income investments were flat.

Wrapping up

Recent communication from most Global Central Banks continues to reiterate that their primary objective is to maintain price stability, which they are currently not doing.

Most Central Banks have stated that they are monitoring to see if inflation dips after the recent rate increases, however, they have also stated that they will continue to take further action to get inflation under control, if inflation does not drop aggressively over the next 8 weeks.

We will continue to be patient and wait for momentum to return to equity markets before actively allocating again. However, our research team is actively working on further strategy development, to take advantage of this new world of expanded volatility.

MARKET INSIGHTS

JULY 2022

WRITTEN BY FRAME FUNDS RESEARCH TEAM

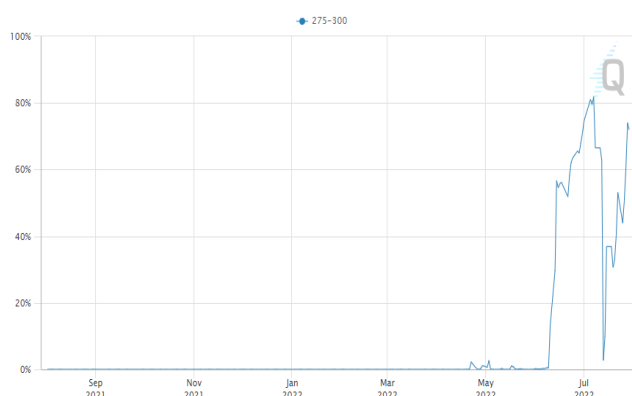
In this issue of 'Market Insights', we provide an update surrounding recent movements in the fixed income market. We also cover expectations for rate increases until the end of the year, and into 2023.

After the most recent FOMC meeting, we have seen numerous changes to forward probabilities within the fixed income market.

This article aims to provide investors with an update on what changes have happened in the fixed income market, and how markets are viewing the next 9 months of this interest rate cycle.

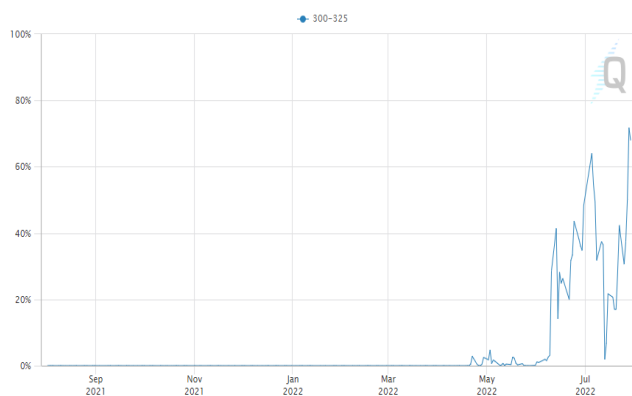
At the September meeting, expectations for a 50bps increase is unchanged

TARGET RATE PROBABILITY HISTORY FOR FEDERAL RESERVE MEETING ON 21 SEP 2022



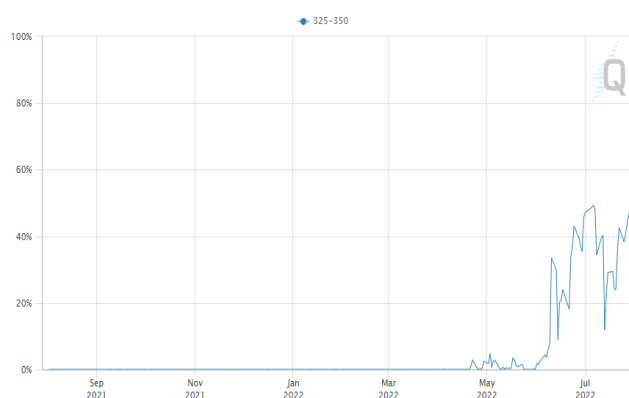
For the November meeting, another 25bps increase has 68% odds of happening, this would bring the target range to 3.00% - 3.25% - no real change here

TARGET RATE PROBABILITY HISTORY FOR FEDERAL RESERVE MEETING ON 2 NOV 2022



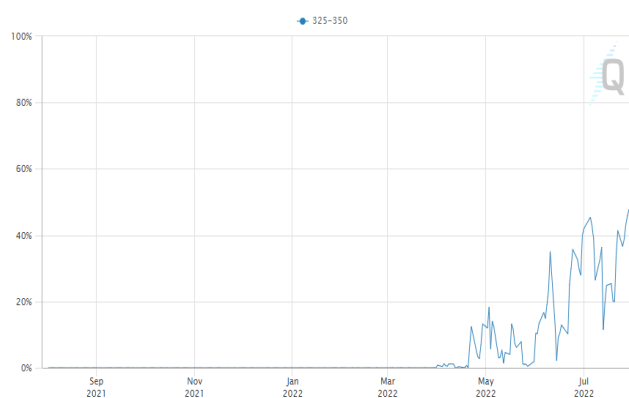
For the December meeting, another 25bps increase has 50.15% odds of happening, this would bring the target range to 3.25% - 3.50% - an increase here

TARGET RATE PROBABILITY HISTORY FOR FEDERAL RESERVE MEETING ON 14 DEC 2022

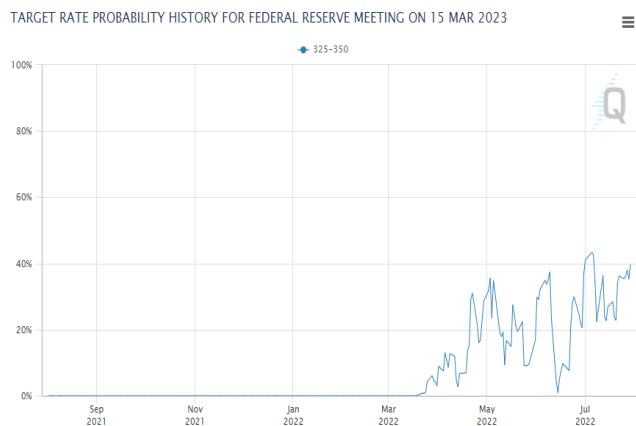


When we look at the February meeting - odds of a hold are currently at 47.8%

TARGET RATE PROBABILITY HISTORY FOR FEDERAL RESERVE MEETING ON 1 FEB 2023



When we look to the March meeting expectations are for a hold to rates once again



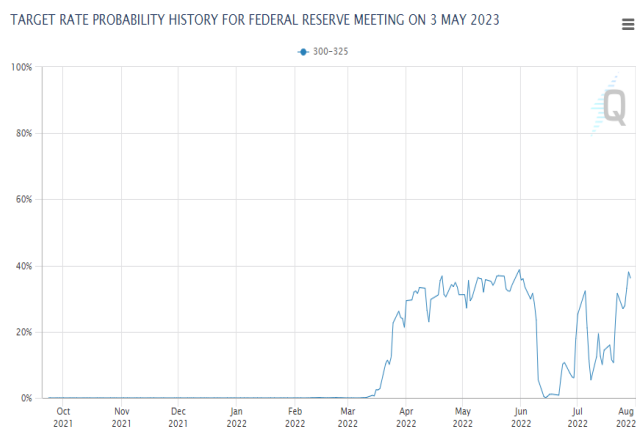
Ultimately the market is saying that they are going to continue to increase rates over the next three meetings by 50bps and then 25bps, and then at the December meeting, increase by a further 25bps.

After this, and into next year, the market is currently pricing that rates will either be held or will cut.

What does this mean for portfolio positioning?

We view these changes to the forward pricing of interest rates markets as a direct indication that investors are anticipating that US growth is going to slow later this year and into early next year, and that in response to this slowing growth, the US Federal Reserve is going to reduce interest rates.

But then when we look to May, it is showing that the market thinks there is a 36% chance of a cut of 25%

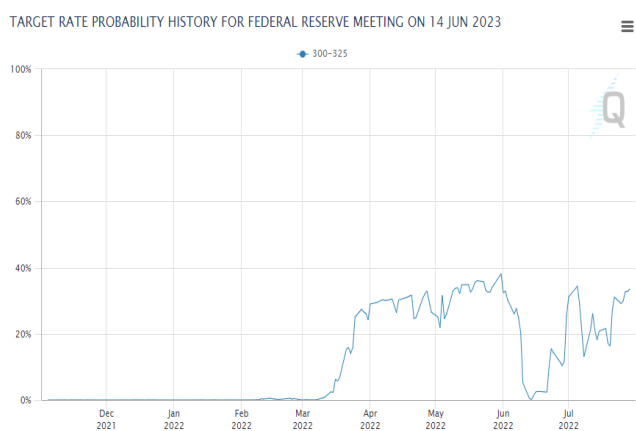


This is the same game plan that the US Federal Reserve has used since the GFC. The problem with this game plan is that if inflation continues to stay at elevated levels over the next 6 months, and does not revert to their targeted 2% level, this market pricing is off.

Summary

By looking at this information, we are able to understand why equity markets rallied last month. Participants seem to be viewing where we are currently, as getting close to the top of this interest rate cycle. Because equity markets are forward looking, participants have looked into the future and see the end of this cycle, and that the Fed is starting to move in the other direction.

And then when you look forward to June, markets are pricing that there will be a hold on rates once again



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GLOBAL MACRO

WRITTEN BY HUE FRAME

Frame Futures Fund

Units of the Frame Futures Fund appreciated by +0.595%. The Fund's trading strategies added +1.08%, while the core strategy declined by -0.49%.

Equity investments rose by +1.12%, while Commodity and Currency investments dropped by -0.05% and -0.47% respectively. Fixed Income investments were flat.

Global equity markets rallied aggressively into the end of the month as market participants viewed the most recent FOMC meeting as a mild pivot of hawkishness. Jerome Powell pivoted from providing forward guidance on interest rates, to focusing on the incoming data before making further decisions on interest rates. He did however state that they still believe rates need to move into restrictive territory to get inflation under control. After this meeting, interest rate markets are pricing in an interest rate cut in May next year. Commodity markets experienced a month of volatility as most key industrial metals sold off over the course of the month, but then had a relief rally, as the month came to a close.

Largest contributors to performance were our active trading strategies on the S&P / ASX 200 future contract, our long investment on the US Dollar Index future and our Australian Dollar future, these contributed +1.33%, +0.44% and +0.38% respectively. Largest detractor was our short position on Ethereum which cost the core strategy -0.80%.

In terms of fund activity, we continued to reduce exposure out of individual ASX stock positions and reduced stale long and short positions held within the Core strategy.

Looking forward, we continue to focus on the incoming data and patiently wait for the market to find a new footing considering this data.

INVESTMENT TEAM



HUE FRAME
Portfolio Manager



SYDNEY ROBERTSON
Quantitative Research Analyst

FUND PERFORMANCE as at 31ST July 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
Frame Futures Fund	0.60%	-18.09%	-13.97%	+4.05%	+0.57%
RBA Cash Rate + 3%	0.33%	1.63%	3.23%	3.24%	3.25%
Excess Return	0.27%	-19.72%	-17.20%	0.82%	-2.68%

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AUSTRALIAN EQUITIES

WRITTEN BY HARRY HEANEY

Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund increased 1.27% in July. Comparatively, the S&P/ASX200 advanced 5.74% for the period.

Equity markets rebounded in July, making a strong start to the new financial year. The market took negative surprises in United States GDP and inflation well – investors seemed to believe deteriorating economic conditions mean the Federal Reserve will soon pivot to be more accommodating. In Australia, the Reserve Bank lifted interest rates by another 50 basis points. Both the market and economists expect the same again for the Bank's August meeting as inflation lifted to 6.1% year-on-year. This would take the cash rate to 1.85%, the highest level since April 2016.

Top equity contributors came from both long and short strategies. On the long side, National Australia Bank Ltd (**ASX: NAB**) and Aurizon Holdings Ltd (**ASX: AZJ**) added +0.09% and +0.07% respectively. NAB benefitted from the recovery in the broader financial sector, while Aurizon completed their acquisition of One Rail Australia. Short trades in Domain Holdings Australia Ltd (**ASX: DHG**) and Life360 Inc (**ASX: 360**) contributed 0.11% and 0.06% respectively. Our discretionary active trading strategy also contributed +1.43%.

Largest detractors for the month were long positions in Orora Ltd (**ASX: ORA**) and Atlas Arteria Group (**ASX: ALX**), which cost -0.21% and -0.15% respectively. We exited our investment in Orora as it lost momentum, while Atlas Arteria fell after IFM Group failed to make a bid for the company.

We remain cautious moving forward. We are prepared to invest in strong businesses that have withstood market pressure if the current rally is sustained. It is our view that current conditions are conducive to market mispricing that will present both long and short opportunities going forward.

At the conclusion of the month, the Fund held 86.90% in cash.

INVESTMENT TEAM



HARRY HEANEY
Co-Portfolio Manager



HUE FRAME
Co-Portfolio Manager

FUND PERFORMANCE as at 31st July 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
Frame Long Short Australian Equity Fund	+1.27%	-8.04%	-18.78%	-	-
RBA Cash Rate + 3%	0.37%	1.74%	3.34%	-	-
Excess Return	+0.90%	-9.78%	-22.12%	-	-

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Frame Funds.

Contact

Frame Funds Management Pty Ltd

Ph: +61 2 8668 4877
Email: investors@framefunds.com.au
Address: S25, L6, 58 Pitt Street
Sydney, NSW, 2000
Website: www.framefunds.com.au

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