




Markets are likely to be better for as long as real rates are negative


Tactical



Bearish
Bullish

Eventually tech and fintech developments will provide even more support to the market

Strategic



Bearish
Bullish

Best Equity Sectors YTD

Sector	YTD Change %
Energy	4.11
Utilities	0.35
Real Estate	-0.63
Financials	-5.55
Industrials	-6.35
Health Care	-7.51
Consumer Staples	-7.96
Communication	-9.69
Materials	-10.90
Consumer Discretionary	-12.35
Information Technology	-12.62

## ML Sector Strategy – Looking at Oil Price Potential

- Energy sector was the best to own in 2022 and in 2021 actually.
- The upbeat performance of energy stocks is likely to continue in 2023.
- The counter argument to that considers the effects of economic slowdown on energy prices.
- Yet in the inflationary environment energy stocks likely to feel pressure on costs and will rerate product prices to preserve some margins.
- Inverse relationship between dollar strength and oil price is not working well in the current inflationary environment.
- US dollar used to be a safe haven in times of higher risk.
- But it seems that energy companies also benefit from dollar strength.
- Price formation for most energy products is in USD.
- Exporters rerate oil prices rerate in correlation with USD strength.
- Inventories are most likely being built as oil futures curve is in backwardation.
- While the US liquidating its oil from the reserve most likely is a mistake.
- One possible trade is to borrow at the bank credit level rates buy 12 month future and get 2 to 3 percent carry.
- 12 month WTI future trades at 69\$/bbl and the spot is at 76\$/bbl currently.
- Assuming that the spot prices in Sep 23 will be at 76 \$/bbl creates potential 10% income.
- Negative real rates always support an environment for inventories build up.
- It will all end in tears eventually when destocking event occurs.
- But meanwhile there is a lot of hype to ride on

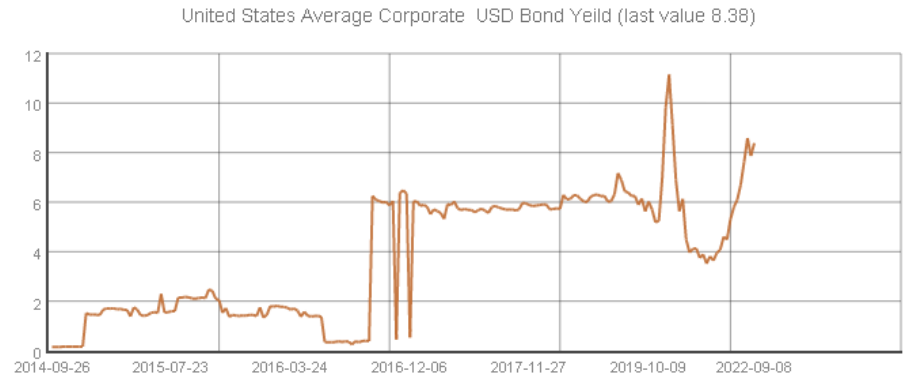
WTI Futures Curve

Month	Price (\$/bbl)
Cash	78
Jan'23	77
Apr'23	75
Jul'23	73
Oct'23	71
Jan'24	69
Apr'24	68
Jul'24	67
Oct'24	66
Jan'25	65
Apr'25	64
Jul'25	63
Oct'25	62
Jan'26	61
Apr'26	60
Jul'26	59
Oct'26	58

Source: tradingcharts.com

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## US Average Corporate USD Bond Yield



Source: Midlincoln

## Global Bond Yields By Sector Yield Change YTD

sector	Average YTM	Yield Change %ppt
Industrial Other	17.65	10.13
Consumer Non-Cyclical	11.11	6.24
Utility	12.27	5.70
Financial Institutions	10.11	5.37
Capital Goods	9.68	4.87
Sovereign	10.60	4.56
Finance Companies	9.46	4.50
Communications	8.37	4.03
Industrial	9.41	3.93
Reits	7.02	3.25
Consumer Cyclical	7.80	3.24
Financial Other	7.37	3.02
Agency	7.34	2.90
Owned No Guarantee	7.51	2.68
Supranational	5.69	2.63
Technology	7.04	2.58

Electric	6.57	2.58
Transportation	7.12	2.52
Banking	6.49	2.11
Insurance	9.11	2.08
Brokerage/Asset Managers/Exchanges	6.07	2.03
Basic Industry	6.52	1.76
Energy	7.95	1.70
Local Authority	5.52	0.78
Cash and/or Derivatives	1.73	0.2

Source: Midlincoln

## Fund flows YTD

Focus	Objective	Asset Class	Flow USD mn
industry	<a href="#">HEALTH CARE SECTOR</a>	Equity	18977.10
industry	<a href="#">TECHNOLOGY SECTOR</a>	Equity	2841.37
industry	<a href="#">COMMUNICATIONS SECTOR</a>	Equity	883.53
industry	<a href="#">MULTIPLE SECTOR</a>	Equity	2.39
industry	<a href="#">ENERGY SECTOR</a>	Mixed Allocation	-3.02
industry	<a href="#">NATURAL RESOURCES SECTOR</a>	Equity	-1286.31
industry	<a href="#">UTILITIES SECTOR</a>	Equity	-1425.03
industry	<a href="#">FINANCIAL SECTOR</a>	Equity	-1431.78
industry	<a href="#">INDUSTRIAL SECTOR</a>	Equity	-1833.96
industry	<a href="#">BASIC MATERIALS SECTOR</a>	Equity	-2100.46
Commodities	<a href="#">PRECIOUS METAL SECTOR</a>	Equity	-4079.15
industry	<a href="#">REAL ESTATE SECTOR</a>	Equity	-5299.23
industry	<a href="#">ENERGY SECTOR</a>	Equity	-41796.34

Source: Midlincoln

# Sector Strategy

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