

# On the Mind of Investors – Guide to Markets

*Global Recession Fears: Challenges and Opportunities in Wealth Management*

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# Market Update



# On The Mind Of Investors: 2Q23

Russia  
Ukraine  
conflict

Inflation

Recession

Energy  
Crisis

US Dollar

Supply  
Chain  
Problems

US vs China

Food  
Crisis

Interest Rates

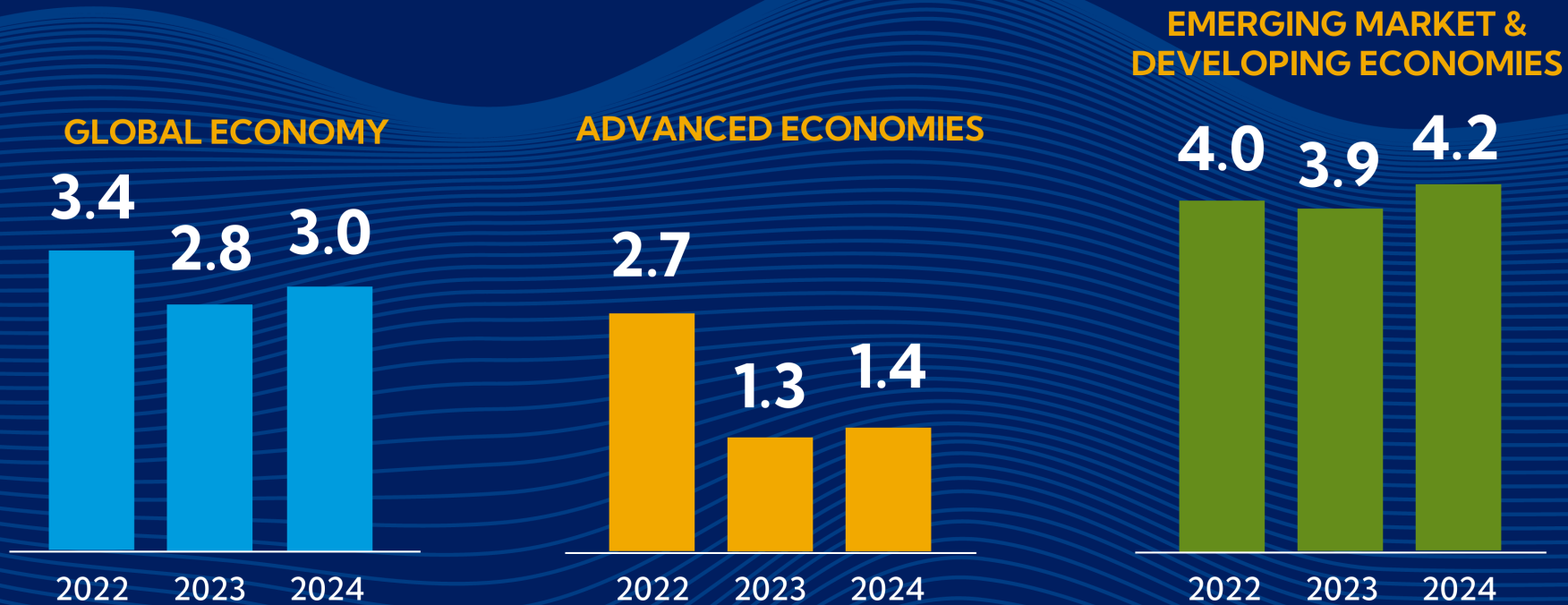


# Let's Start with the IMF

WORLD ECONOMIC OUTLOOK APRIL 2023

## GROWTH PROJECTIONS

(Real GDP growth, percent)



INTERNATIONAL MONETARY FUND

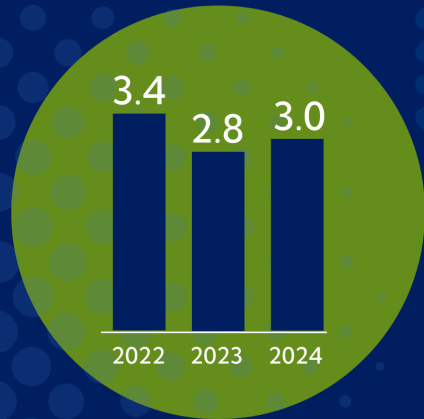
IMF.org #WEO

# Let's Start with the IMF

WORLD ECONOMIC OUTLOOK APRIL 2023

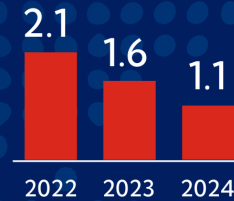
## GROWTH PROJECTIONS BY REGION

### GLOBAL GROWTH

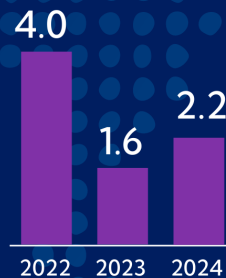


(Real GDP growth, percent)

### UNITED STATES



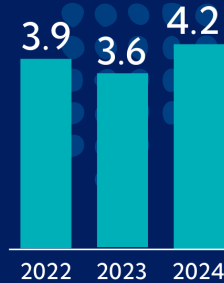
### LATIN AMERICA & THE CARIBBEAN



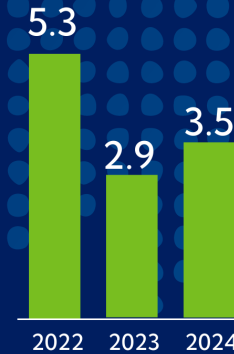
### EURO AREA



### SUB-SAHARAN AFRICA



### MIDDLE EAST & CENTRAL ASIA



### EMERGING & DEVELOPING ASIA



#### Source

IMF, World Economic Outlook, April 2023.

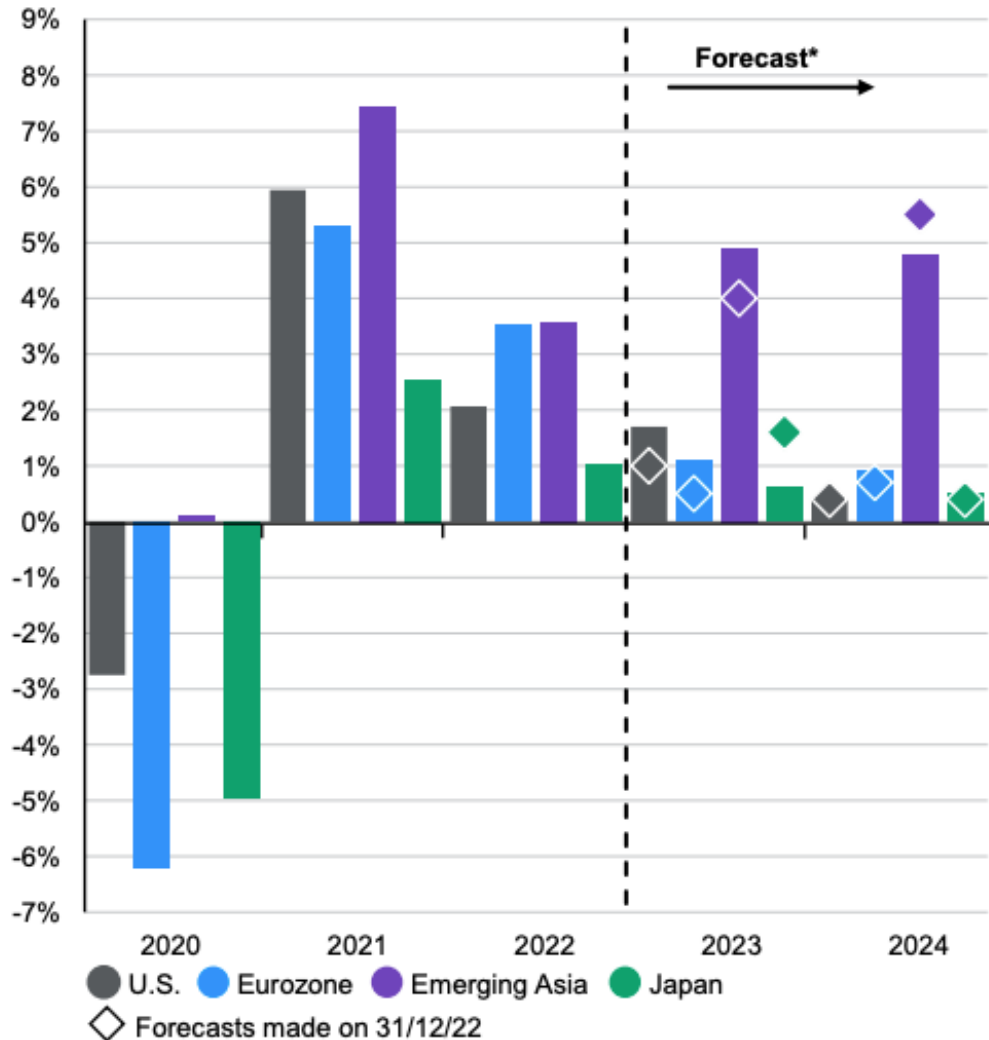
#### Note

Order of bars for each group indicates (left to right): 2022, 2023 projections, and 2024 projections.



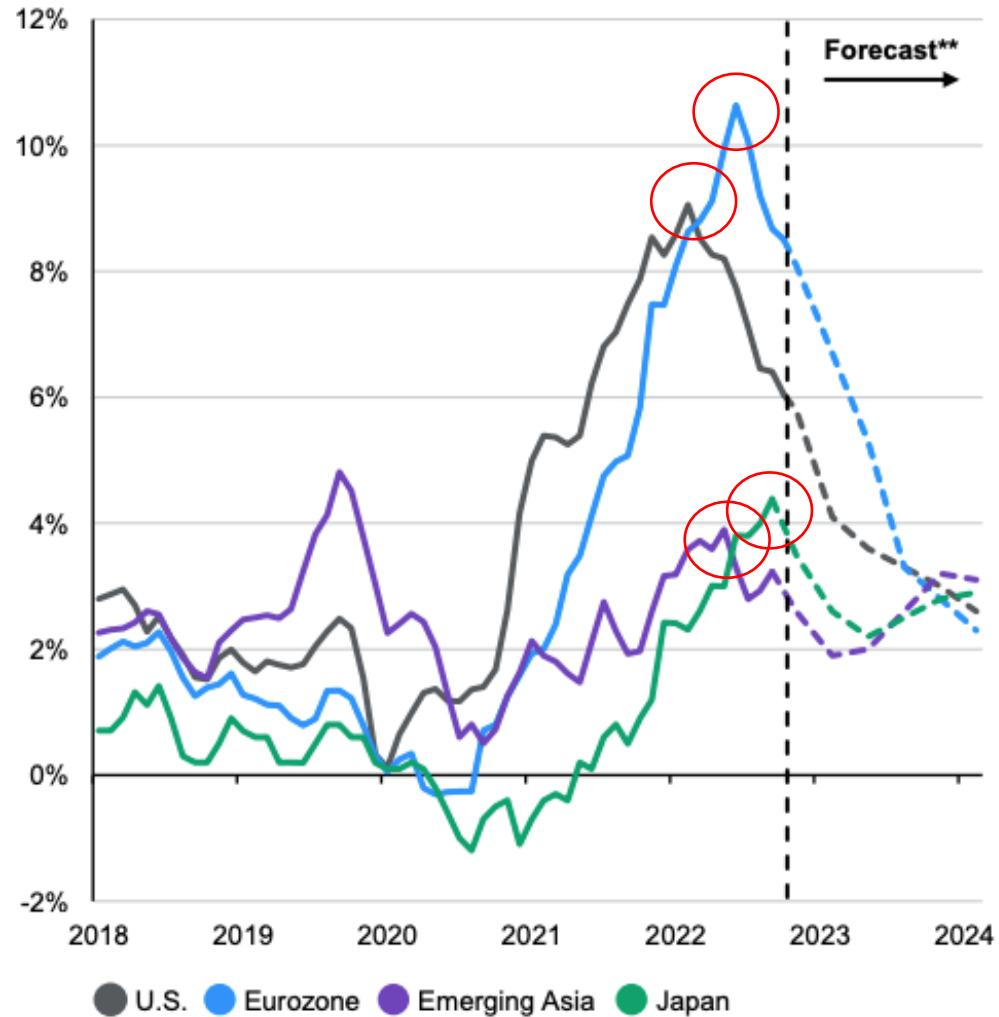
# When Will Inflation Pivot?

Annual real GDP growth



Headline consumer price inflation

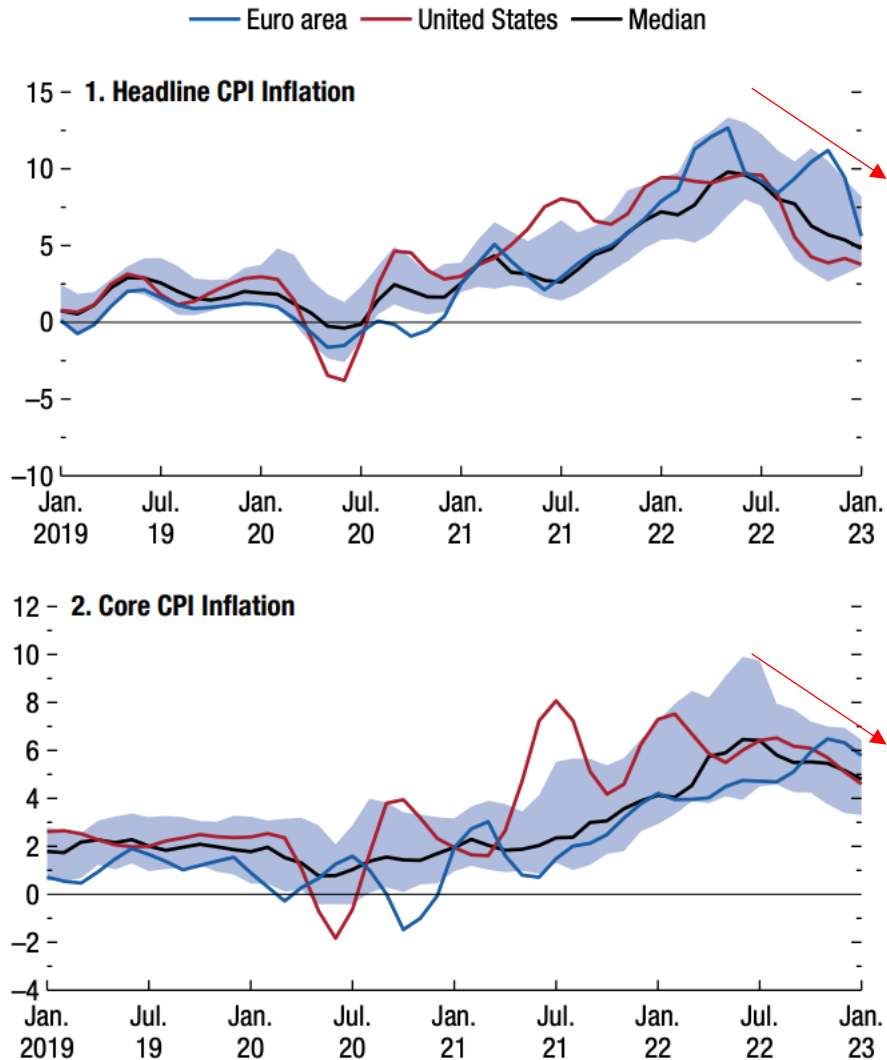
Year-over-year change



Source: FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. \*Real GDP growth forecasts are based on growth forecasts estimated by J.P. Morgan

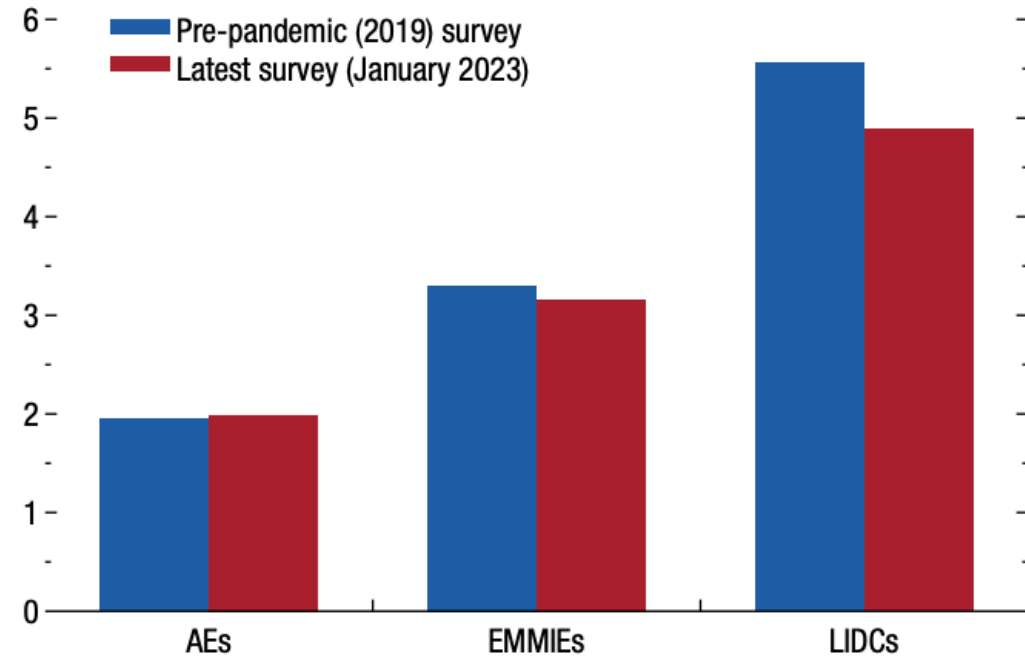
# Were Will Inflation Be Anchored?

**Figure 1.3. Inflation Turning Down or Plateauing?**  
(Percent, three-month moving average; SAAR)



Sources: Haver Analytics; and IMF staff calculations.

**Figure 1.7. Anchored Inflation Expectations**  
(Percent, average five-year-ahead CPI inflation expectations)



Sources: Consensus Economics; and IMF staff calculations.

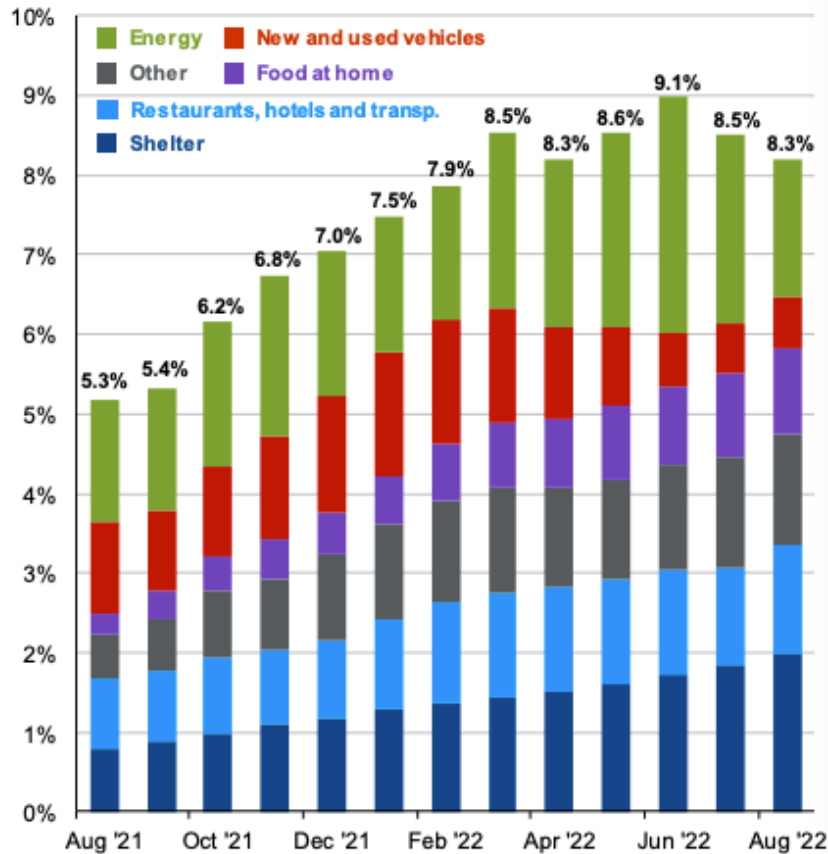


# Breakdown Of Headline Inflation

## Inflation drivers and expectations

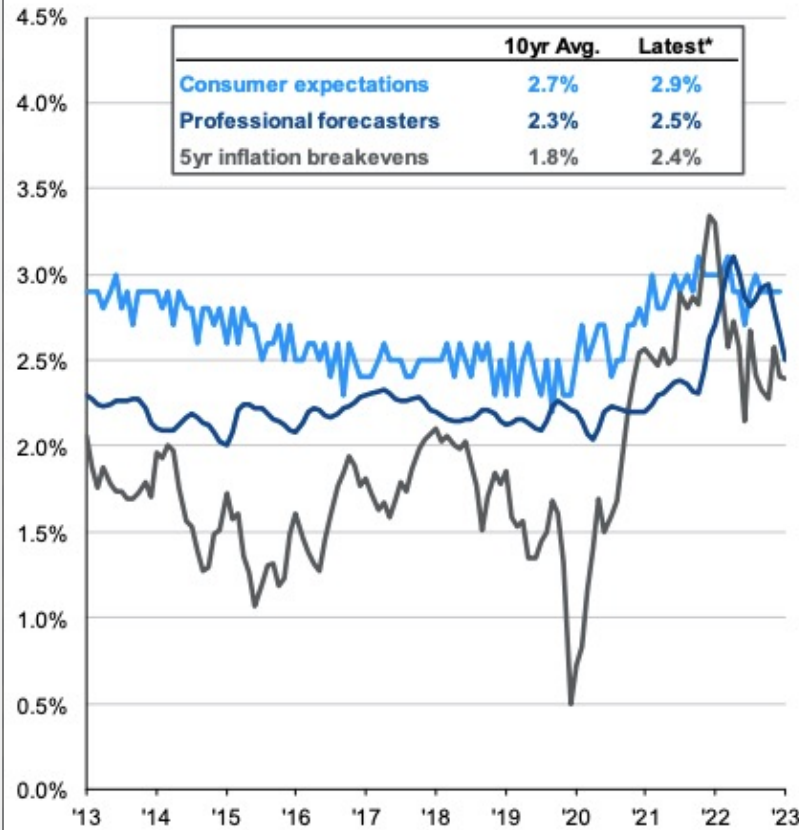
### Contributors to headline inflation

Contribution to y/y % change in CPI, not seasonally adjusted



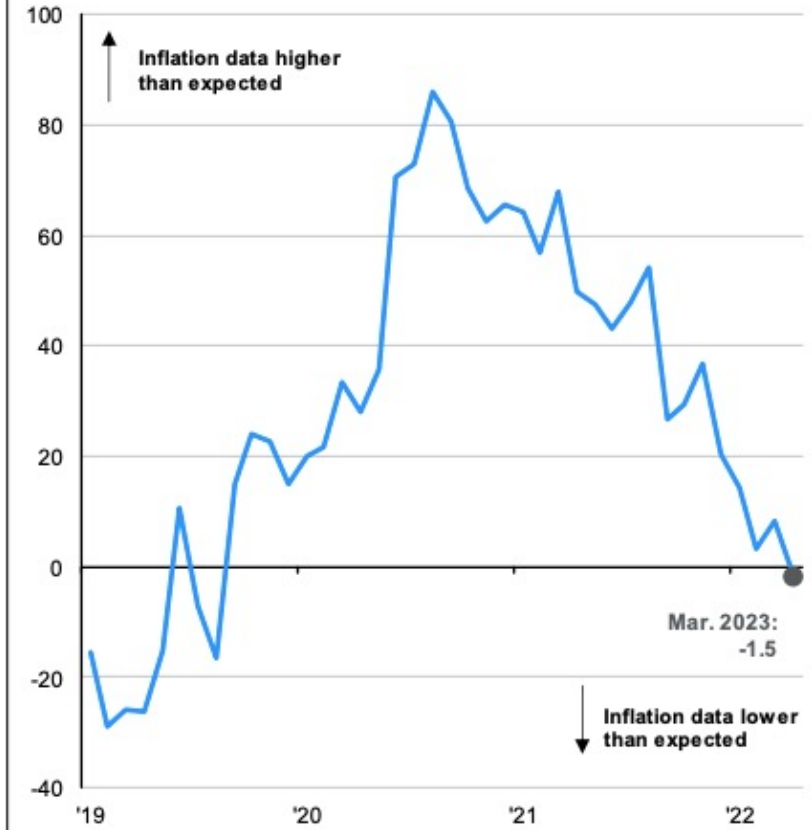
### Inflation expectations, next 5 years

% change vs. prior year, non-seasonally adjusted



### Citi Inflation Surprise Index

Monthly

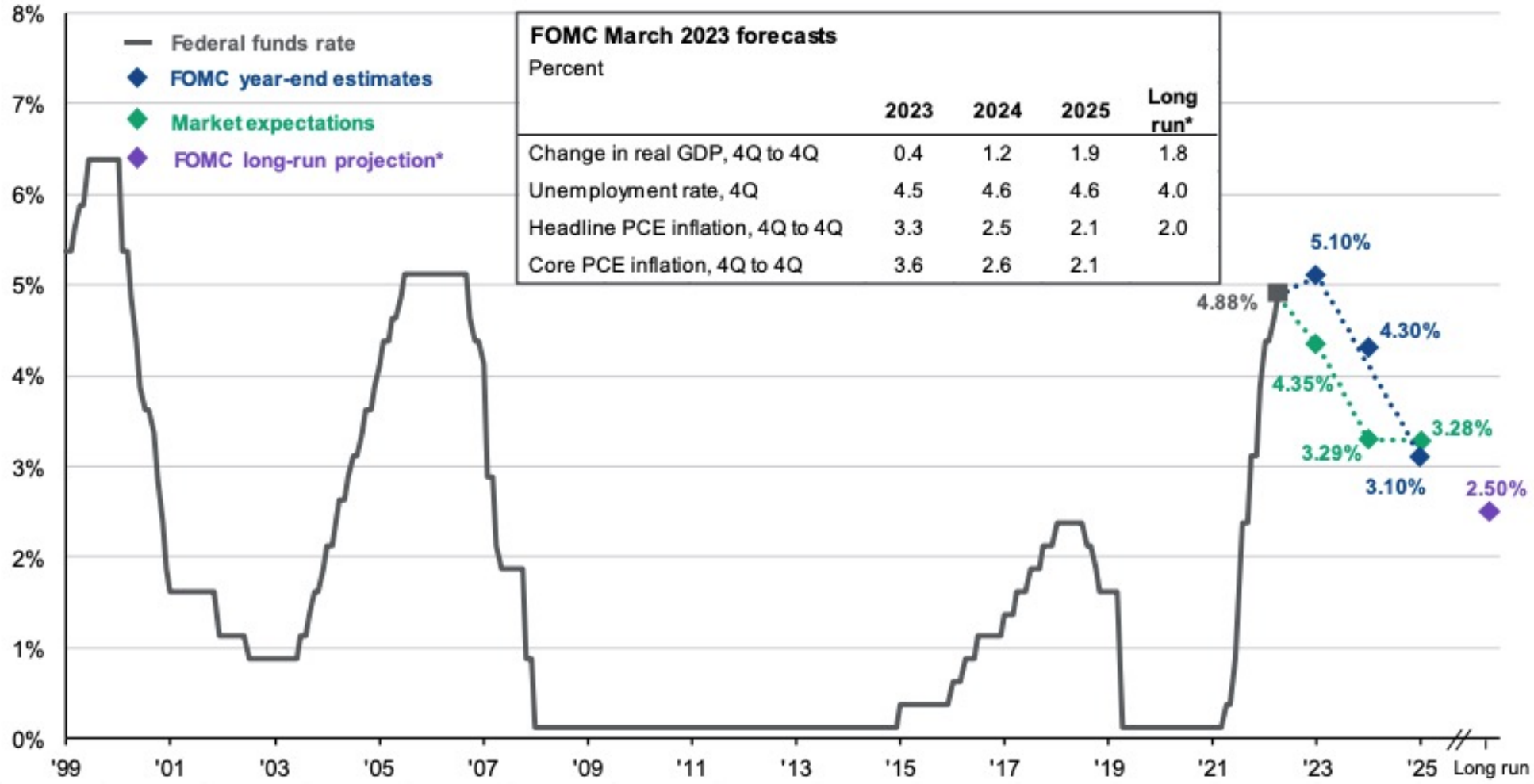


Source: Bureau of Labor Statistics, Citi, FactSet, Federal Reserve Bank of Philadelphia, University of Michigan, J.P. Morgan Asset Management.

# One Or Two Mandates?

## Federal funds rate expectations

FOMC and market expectations for the federal funds rate

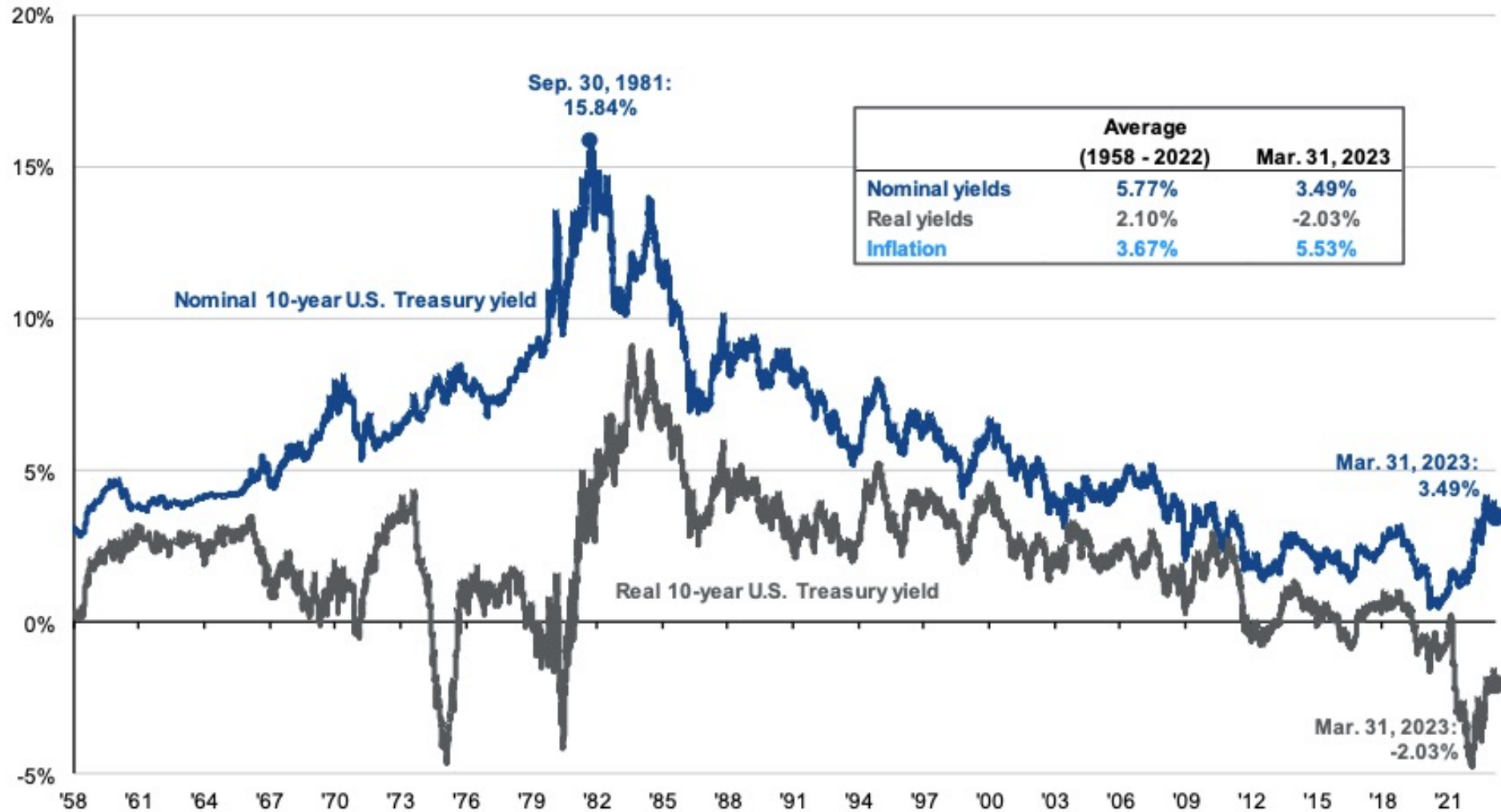


Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management



# Interest Rates and Inflation

Nominal and real U.S. 10-year Treasury yields

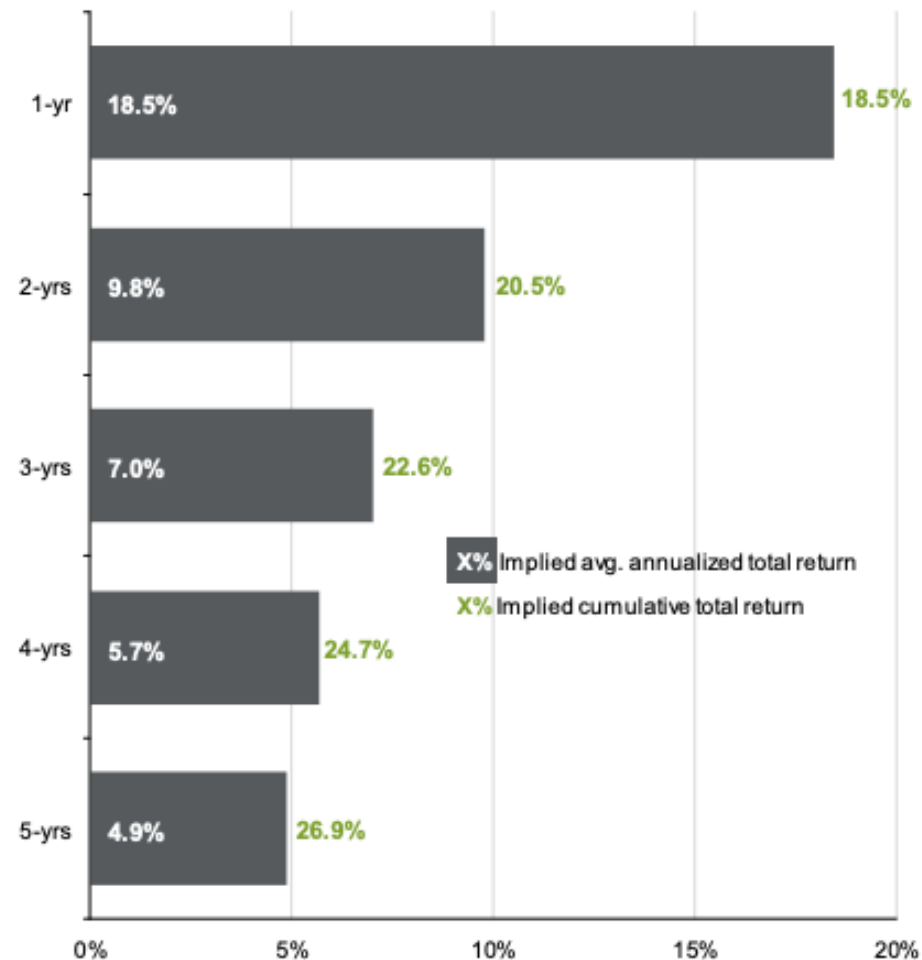


Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.

# Historical Bull & Bear Durations

## Return needed to reach January 2022 peak of 4,797

S&P 500 level as of 3/31/2023 is 4,109



## Bull and bear markets

Bull markets			Bear markets		
Bull begin date	Bull return	Duration (months)	Market peak	Bear return*	Duration (months)*
Jul 1926	152%	37	Sep 1929	-86%	32
Mar 1935	129%	23	Mar 1937	-60%	61
Apr 1942	158%	49	May 1946	-30%	36
Jun 1949	267%	85	Aug 1956	-22%	14
Oct 1960	39%	13	Dec 1961	-28%	6
Oct 1962	76%	39	Feb 1966	-22%	7
Oct 1966	48%	25	Nov 1968	-36%	17
May 1970	74%	31	Jan 1973	-48%	20
Mar 1978	62%	32	Nov 1980	-27%	20
Aug 1982	229%	60	Aug 1987	-34%	3
Oct 1990	417%	113	Mar 2000	-49%	30
Oct 2002	101%	60	Oct 2007	-57%	17
Mar 2009	401%	131	Feb 2020	-34%	1
Mar 2020	114%	21	Jan. 2022**	-25%	9
<b>Averages</b>	<b>162%</b>	<b>51</b>	<b>-</b>	<b>-41%</b>	<b>20</b>

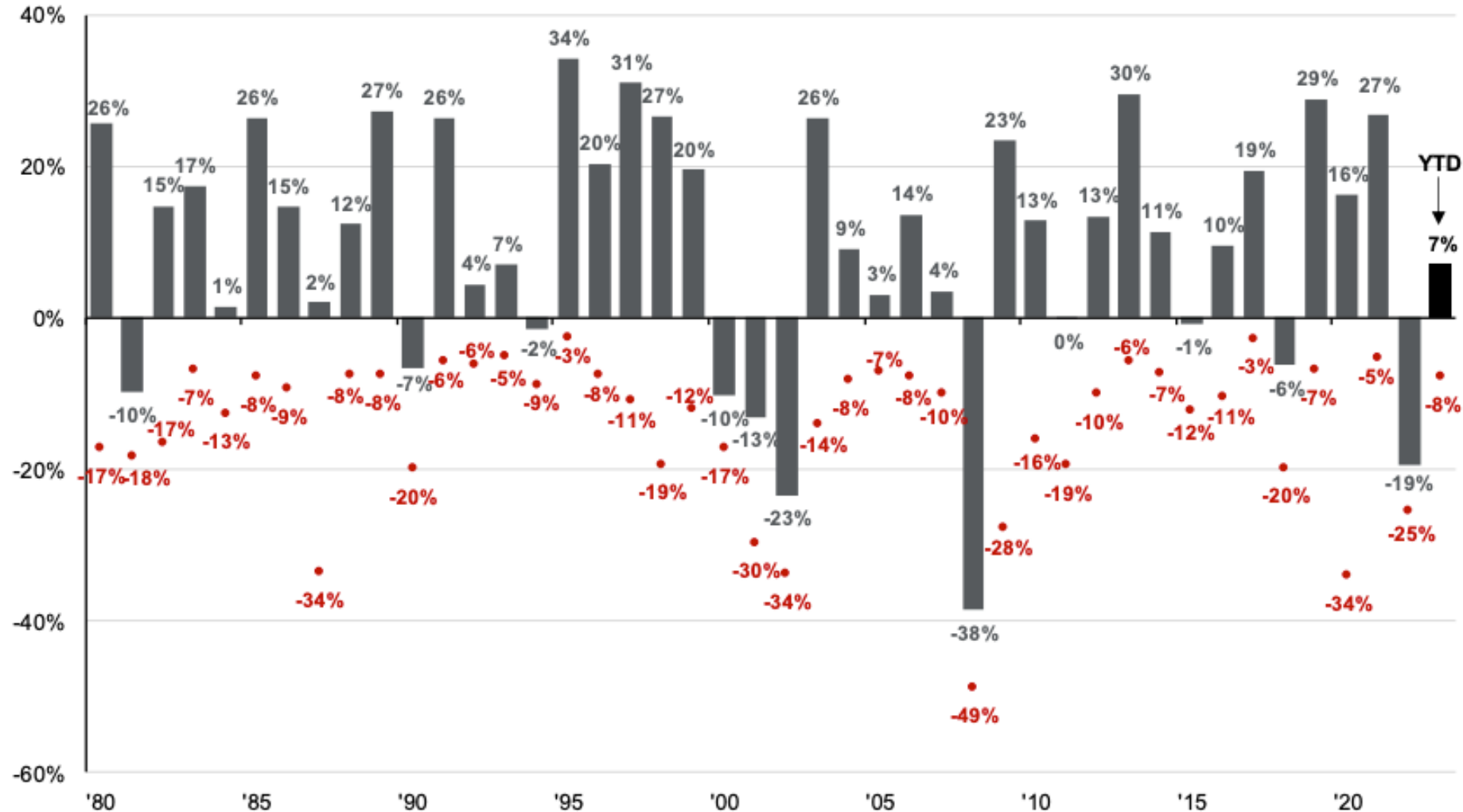
Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management. (Left) The current peak of 4,797 was observed on



# Historical context of volatility

## S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns were positive in 32 of 43 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

# The Ultimate Benchmark

S&P 500 Price Index



Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.

Name	Symbol	YTD
Bitcoin	BTC/USD	63.46%
Nasdaq 100	.NDX	22.61%
DAX	DE40	14.32%
Euro Stoxx 50	STOXX50	13.78%
Gold	XAU	10.04%
<b>S&amp;P 500</b>	<b>US500</b>	<b>7.73%</b>
USDMYR	USD/MYR	2.37%
US Dollar Index	.DXY	-1.05%
KLSE	.KLSE	-4.73%
US10Y	US10YT=RR	-10.30%
Oil	LCO	-12.28%



# Are stocks getting attractive?

S&P 500 Index: Forward P/E ratio



Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management

# Value vs Growth

## Value vs. Growth relative valuations

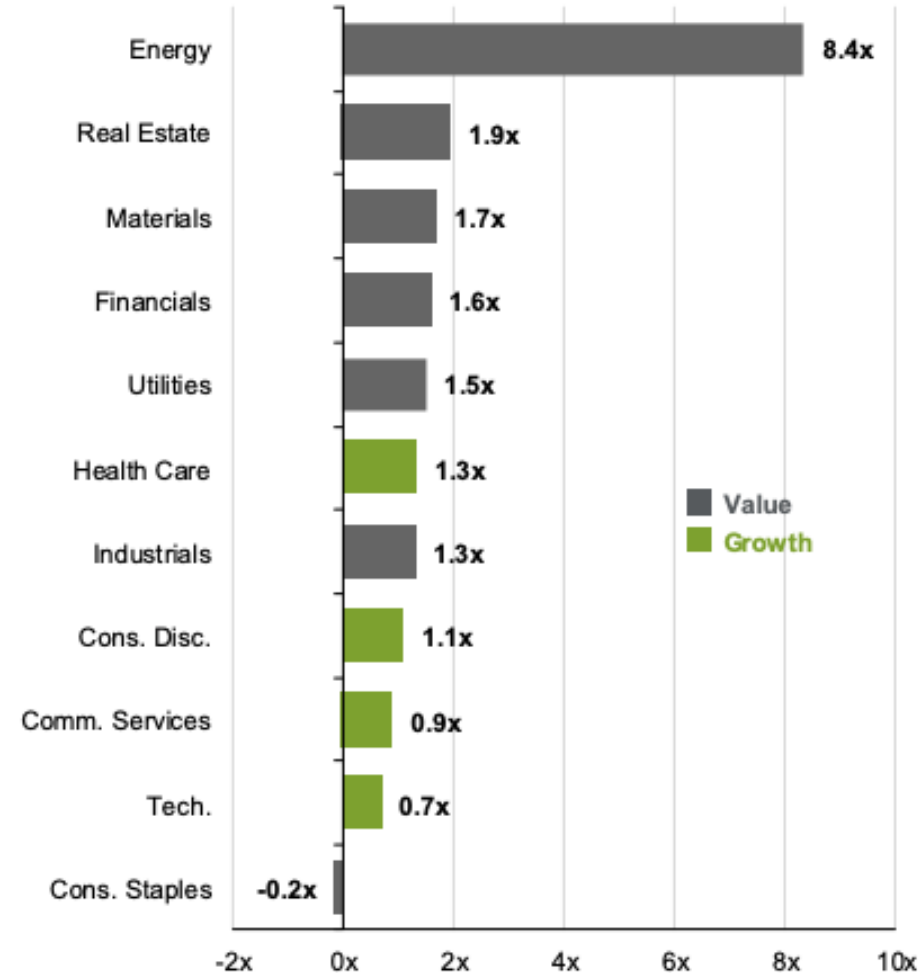
Rel. fwd. P/E ratio of Value vs. Growth, 1997 - present



Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management.

## S&P 500 operating leverage by sector

Impact on operating income from a 1% rise in revenues

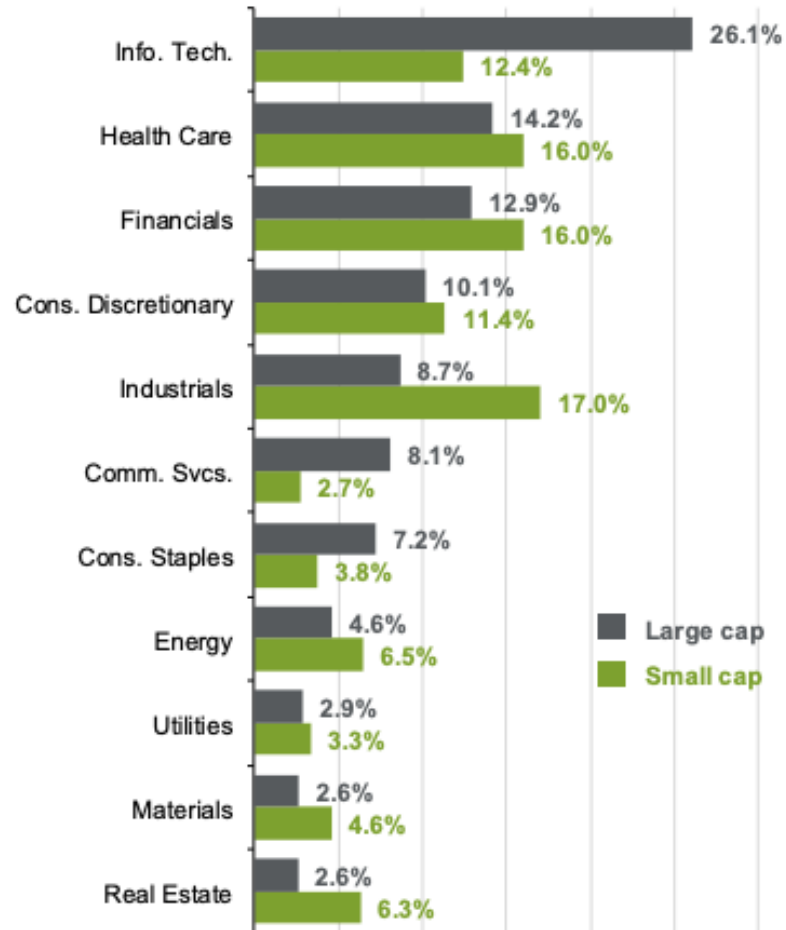




# Small Cap vs Large Cap

## Sector composition

% of index market capitalization



## Percent of unprofitable companies in the Russell 2000

1Q98 – 4Q22, pro-forma EPS



## Interest rate coverage ratio

EBIT/interest expense on debt, monthly, LTM, 1998-present



# Volatility – The New Normal

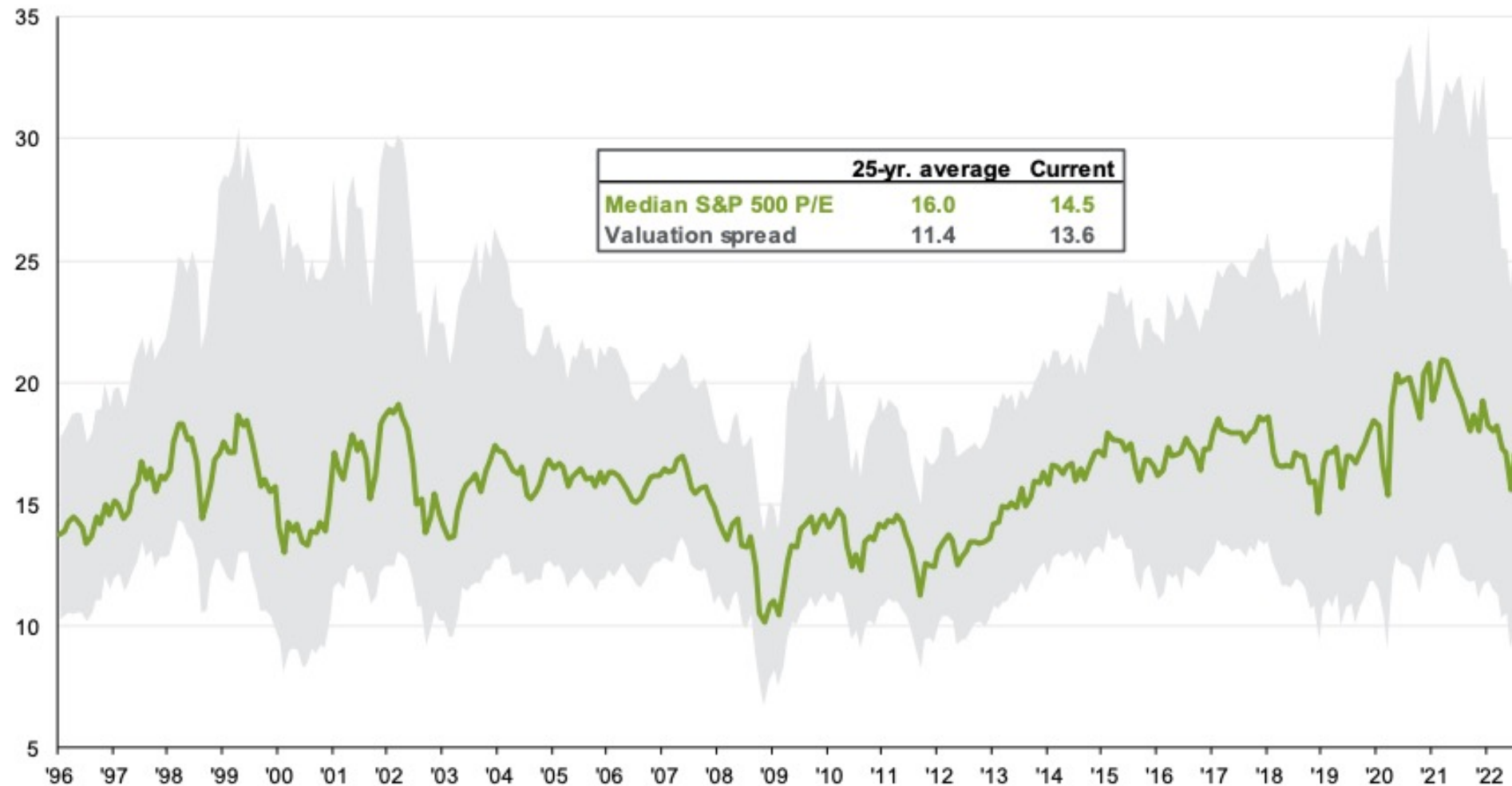
## S&P 500: Valuation dispersion

GTM

U.S.

11

Valuation dispersion between the 20th and 80th percentile of S&P 500 stocks

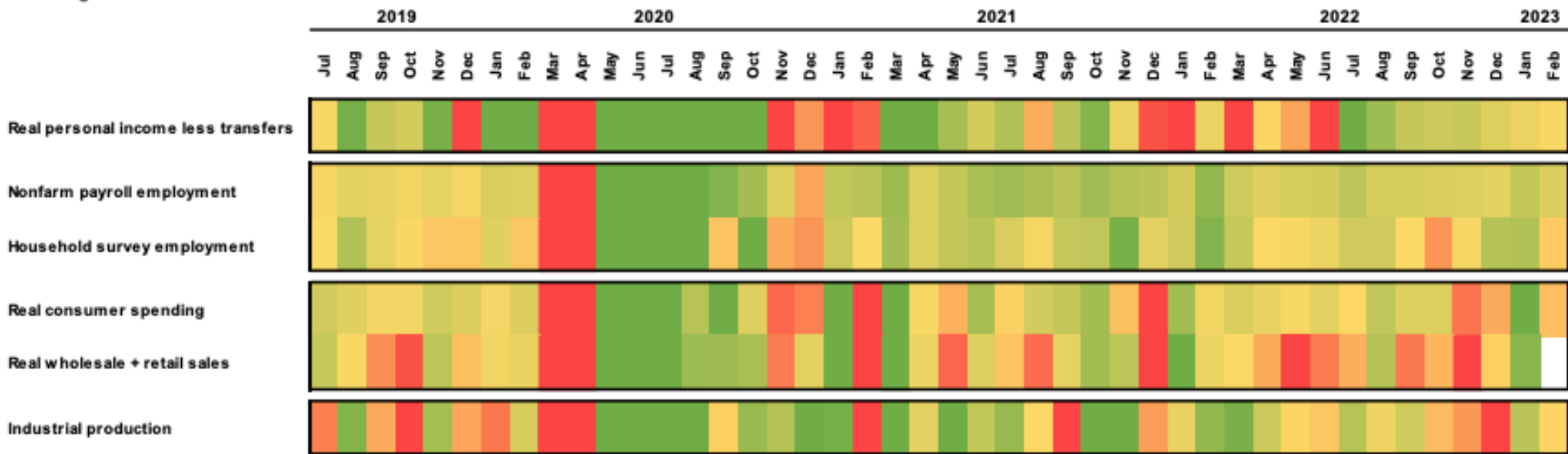




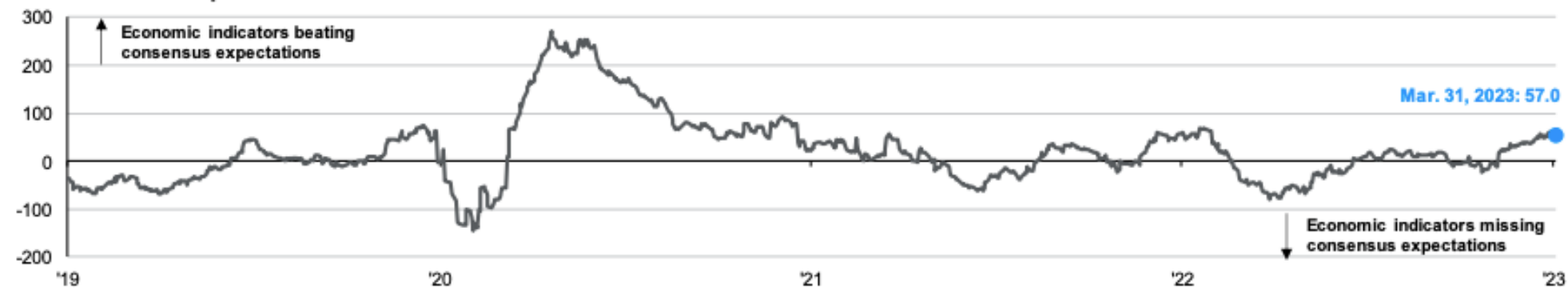
# Recession Determination

## Variables used by the NBER in making recession determination\*

% change month-over-month



## Citi Economic Surprise Index



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Citigroup, NBER, J.P. Morgan Asset Management. Heatmap shading reflects 10 years

# A Leading Indicator?

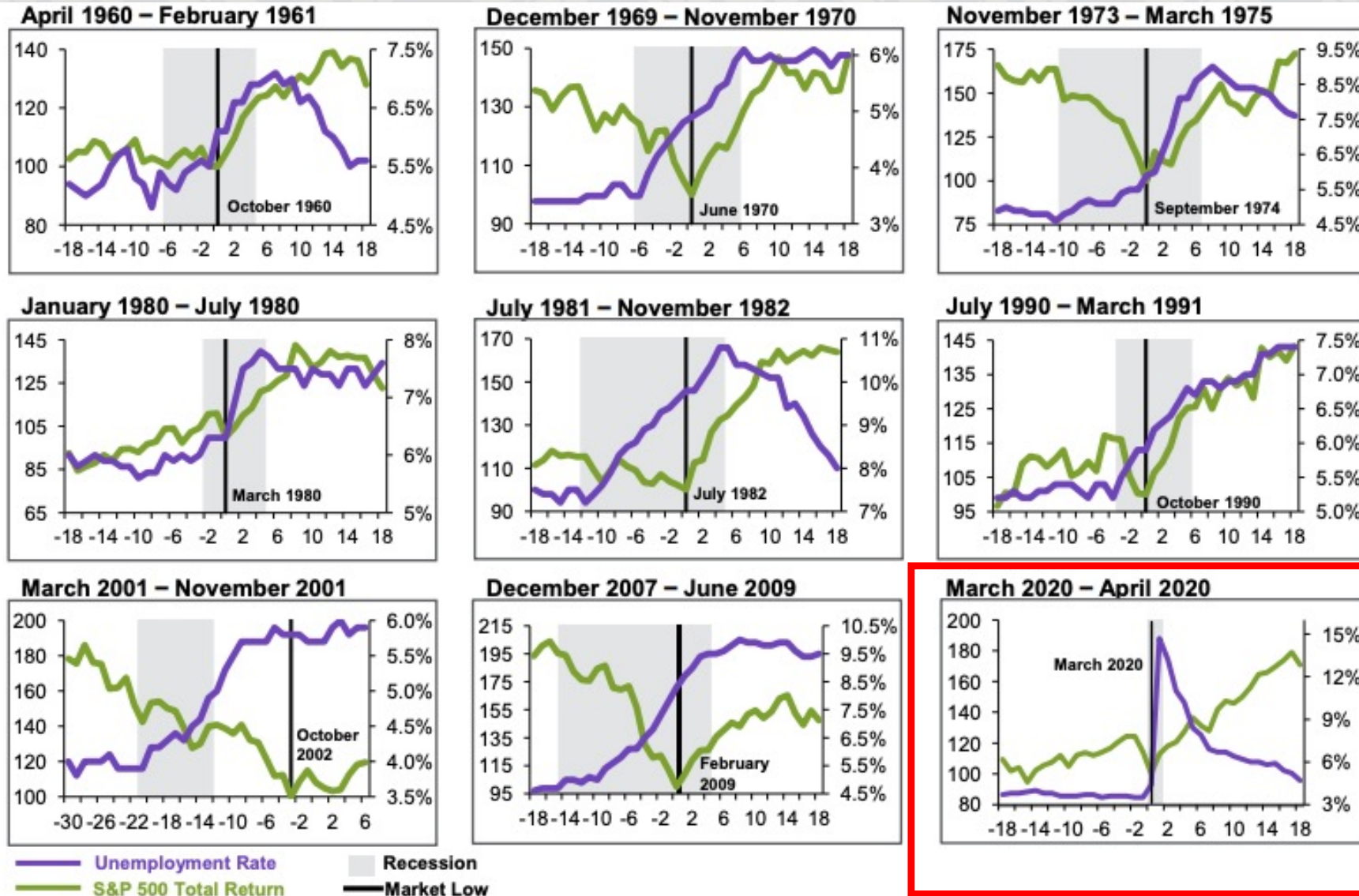
Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.



# Historical context of volatility

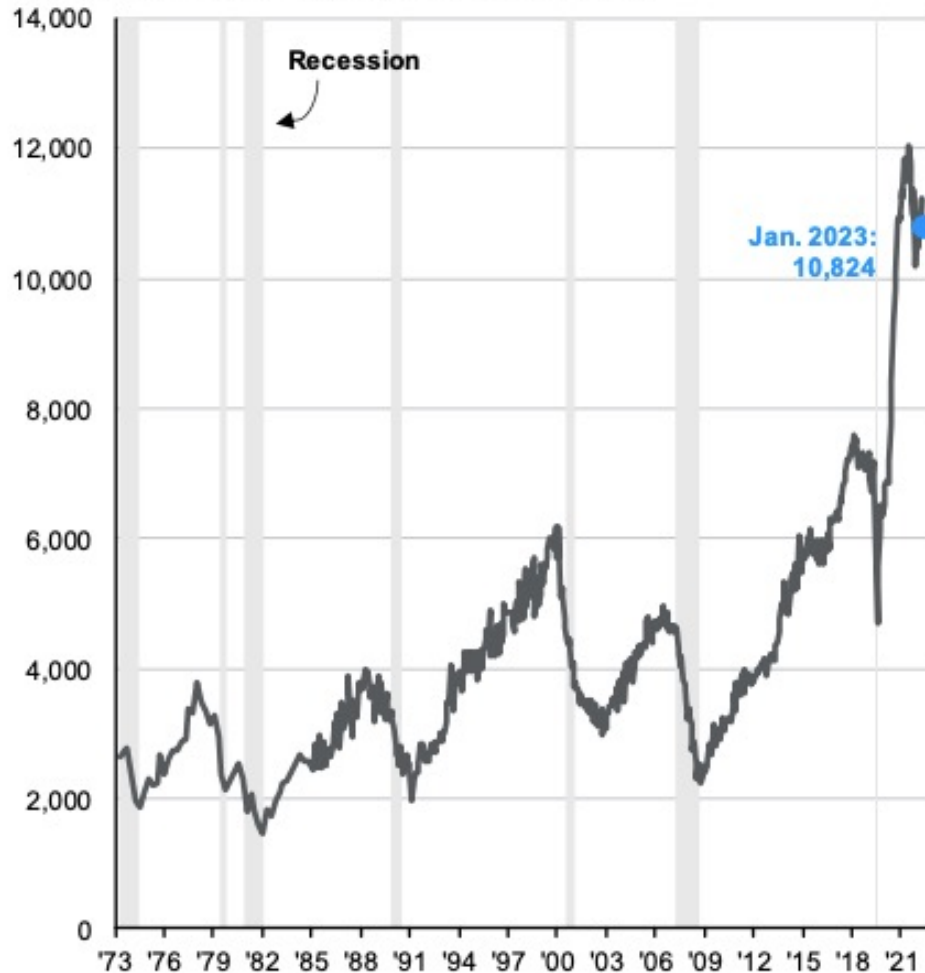


Source: BLS, Ibbotson, J.P. Morgan Asset Management. Time zero represents the numeric low of the S&P 500 Total Return Index associated with

# Labor Demand

## JOLTS job openings\*

Total job openings, thousands, seasonally adjusted



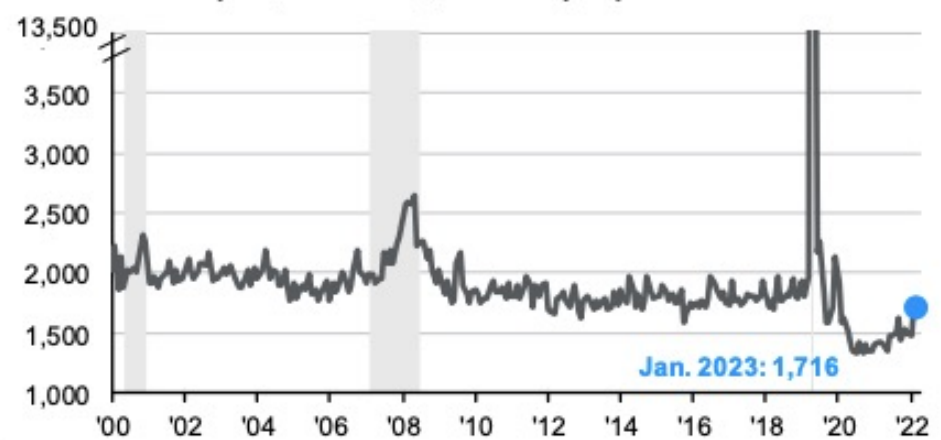
## JOLTS quits

Total nonfarm quits, thousands, seasonally adjusted



## JOLTS layoffs

Total nonfarm layoffs, thousands, seasonally adjusted



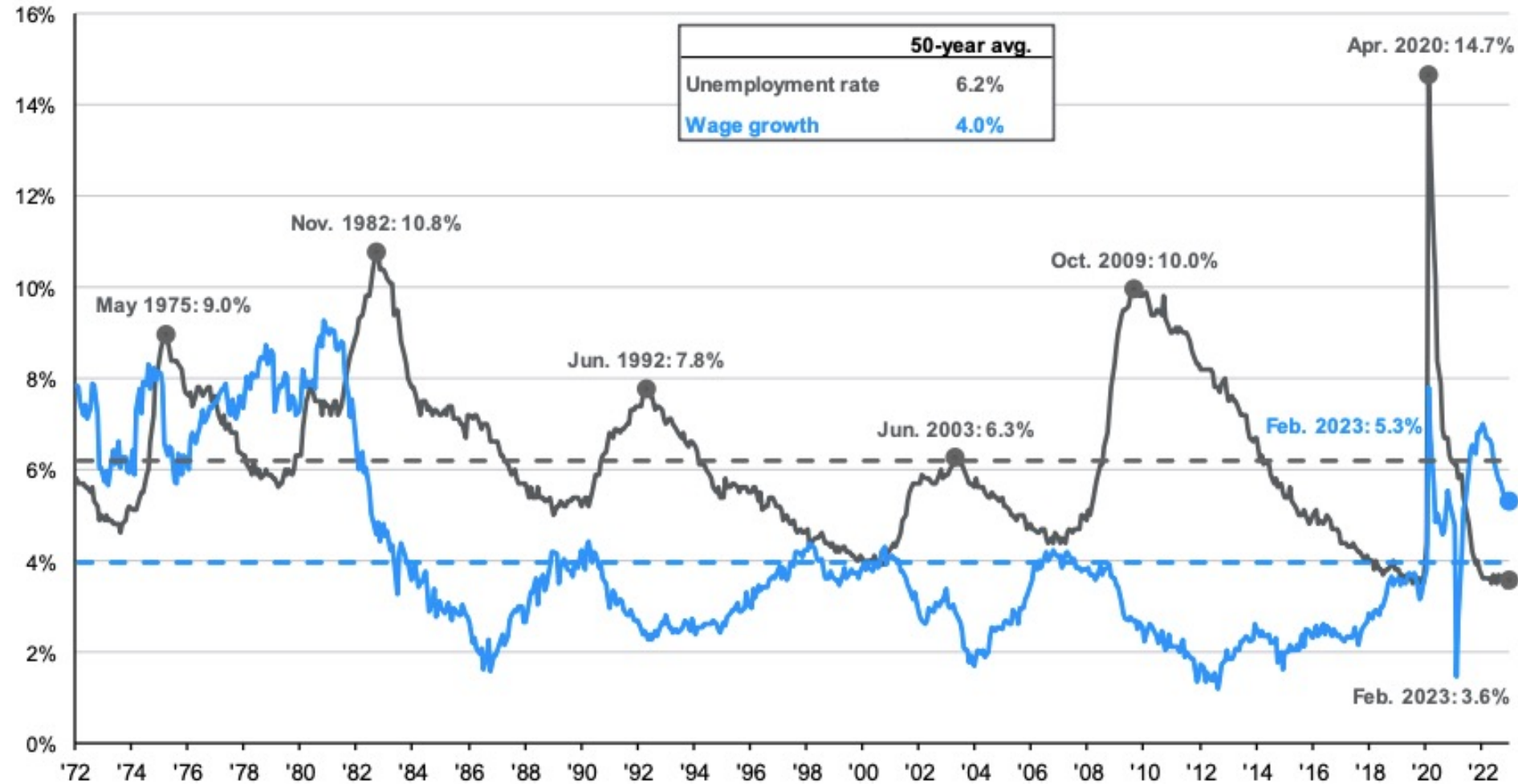
Source: U.S. Department of Labor, J.P. Morgan Asset Management. \*JOLTS job openings from February 1974 to November 2000 are J.P. Morgan



# Unemployment & Salaries (Wages)

## Civilian unemployment rate and year-over-year wage growth

Private production and non-supervisory workers, seasonally adjusted, percent



Source: BLS, FactSet, J.P. Morgan Asset Management. Private production and non-supervisory workers represent 70% of the nonfarm workforce.



# Pain For The World!

## The U.S. dollar

U.S. Dollar Index



## The U.S. trade balance

Current account balance, % of GDP



## Developed markets interest rate differentials

Difference between U.S. and international 10-year yields\*



Source: J.P. Morgan Asset Management; (Left) FactSet, ICE; (Top right) Bureau of Economic Analysis, FactSet; (Bottom right) Tullett Prebon.

# Energy Crisis Easing?

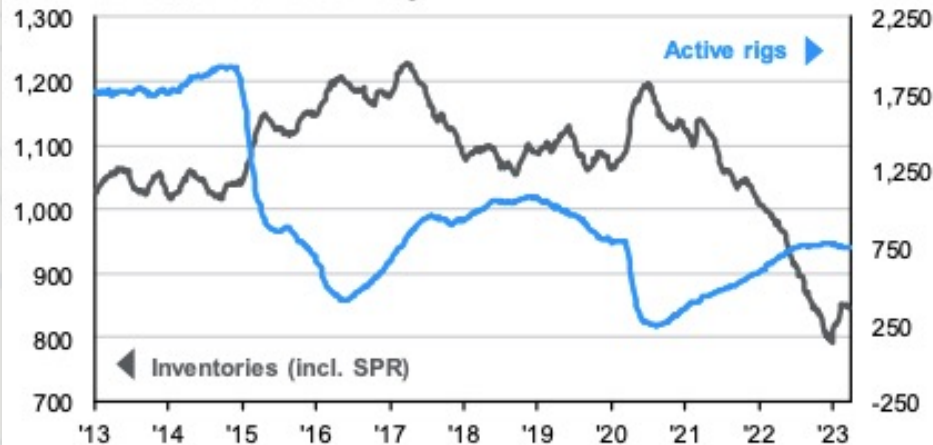
## Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

Production	2019	2020	2021	2022	2023*	Growth since '19
U.S.	19.5	18.6	19.0	20.2	21.1	7.9%
OPEC	34.6	30.7	31.7	34.2	34.1	-1.6%
Russia	11.5	10.5	10.8	10.9	10.3	-10.3%
<b>Global</b>	<b>100.3</b>	<b>93.9</b>	<b>95.7</b>	<b>99.9</b>	<b>101.5</b>	<b>1.2%</b>
Consumption	2019	2020	2021	2022	2023*	Growth since '19
U.S.	20.5	18.2	19.9	20.3	20.5	-0.4%
China	14.0	14.4	15.3	15.2	15.9	13.2%
<b>Global</b>	<b>100.9</b>	<b>91.6</b>	<b>97.1</b>	<b>99.4</b>	<b>100.9</b>	<b>0.0%</b>
Inventory Change	2019	2020	2021	2022	2023*	Growth since '19
	-0.6	2.3	-1.4	0.4	0.6	

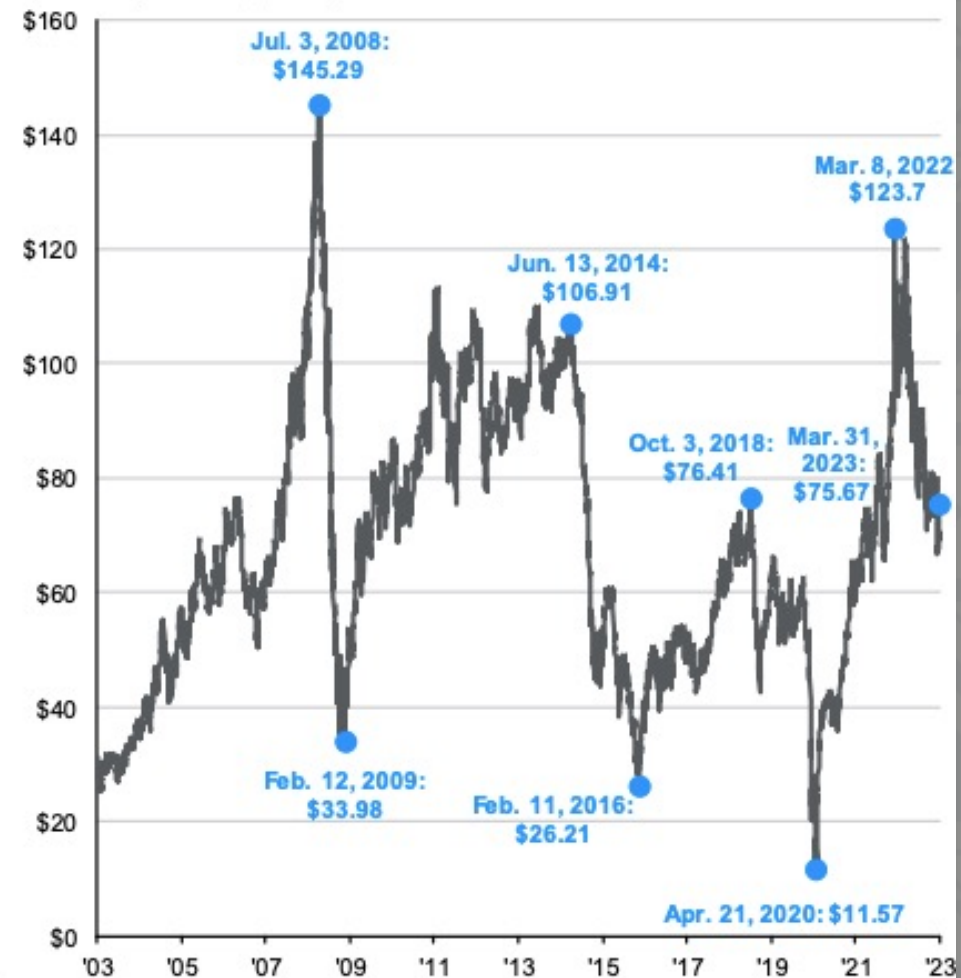
## U.S. crude oil inventories and rig count\*\*

Million barrels, number of active rigs



## Price of oil

WTI crude, nominal prices, USD/barrel



Source: J.P. Morgan Asset Management; (Top and bottom left) EIA; (Right) FactSet; (Bottom left) Baker Hughes.

# Cost of Energy

## Global energy transition

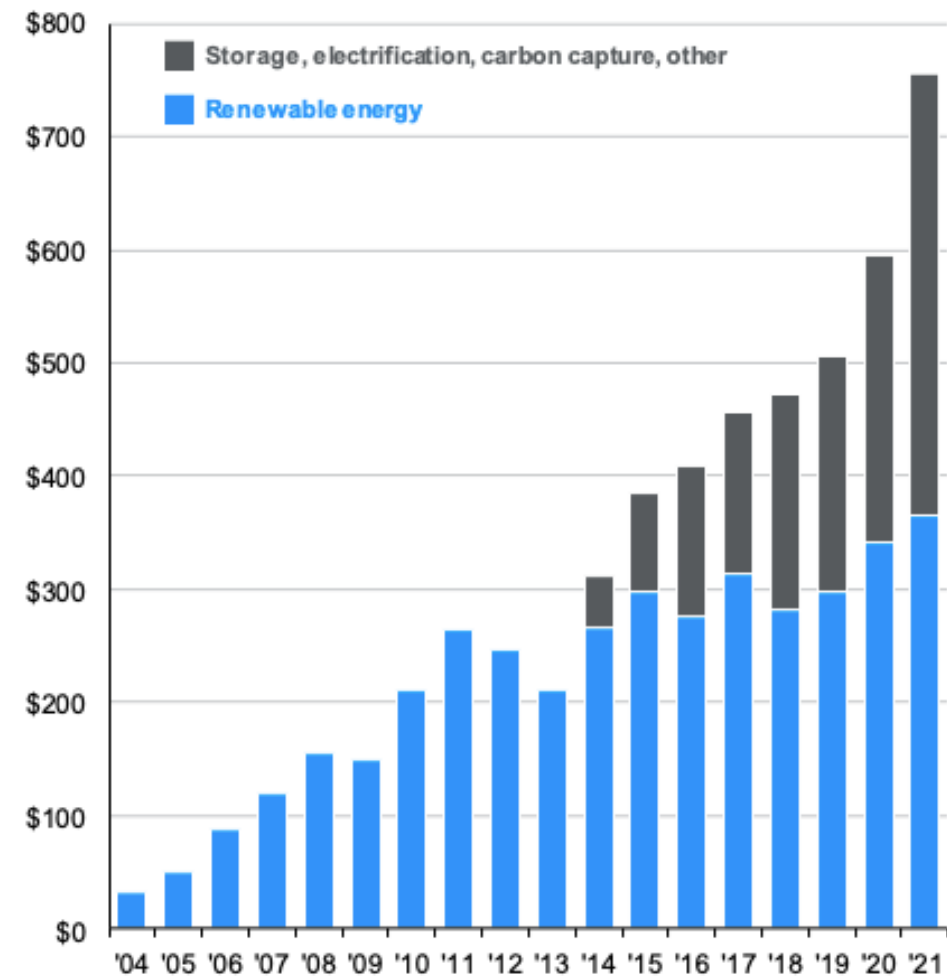
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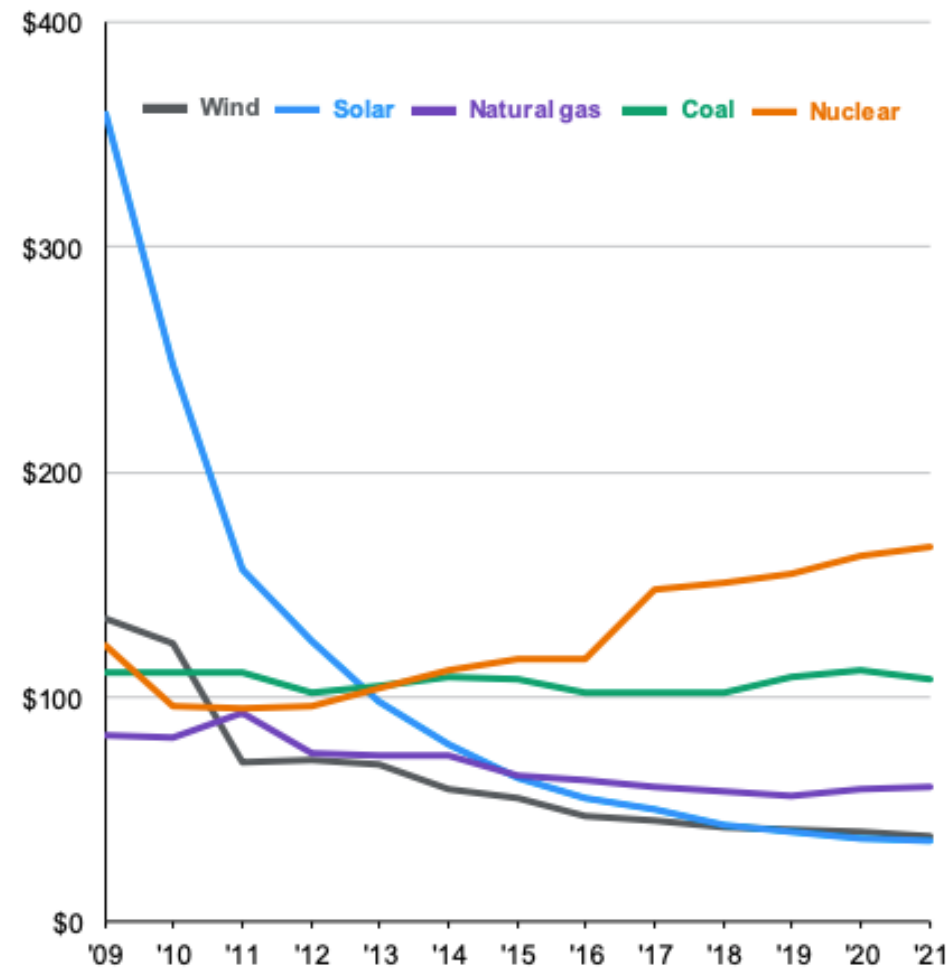
### Global investment in energy transition

Billions USD, nominal



### Cost of wind, solar, natural gas, nuclear and coal

Mean LCOE\*, 2021, dollar per megawatt hour

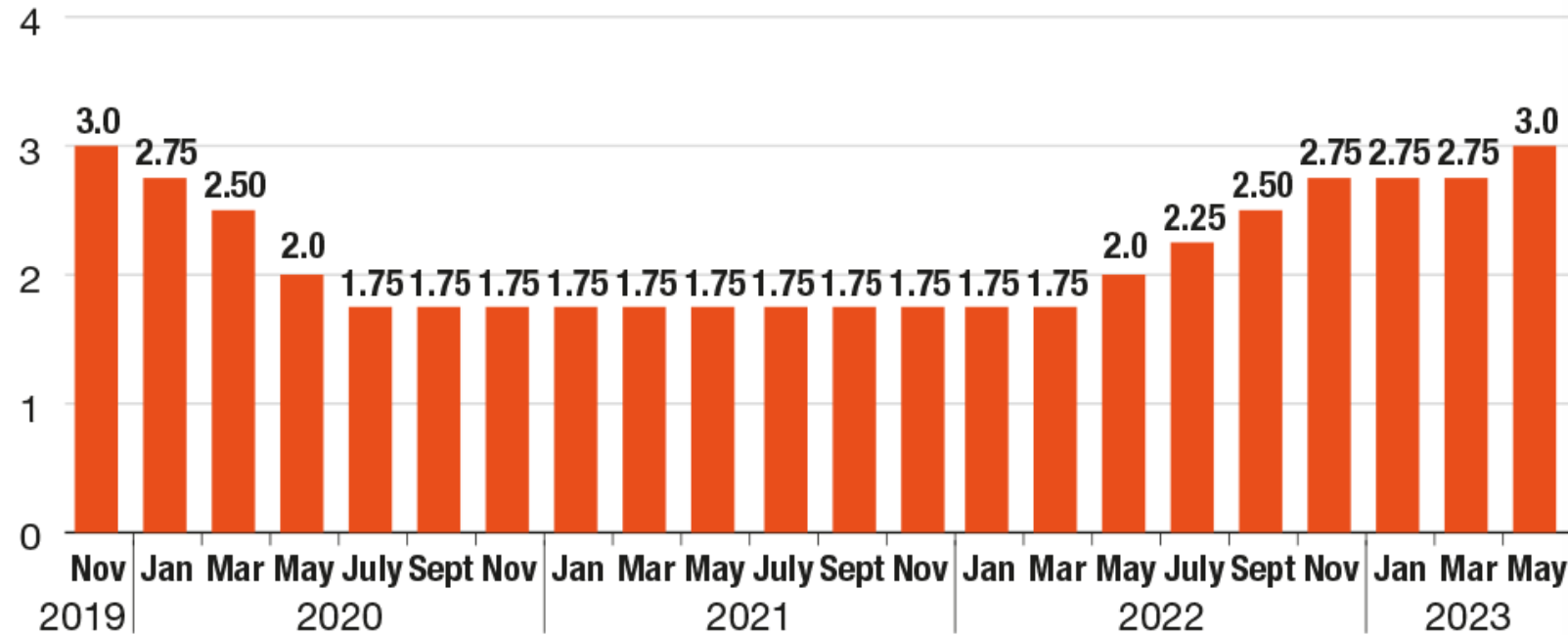




# The FED at 5%

## OPR decision

OPR level (%)



Source: Bank Negara Malaysia

THE EDGE  
MALAYSIA



Comparing the Speed of

## U.S. Interest Rate Hikes

Rates have risen faster than any other time in recent history.

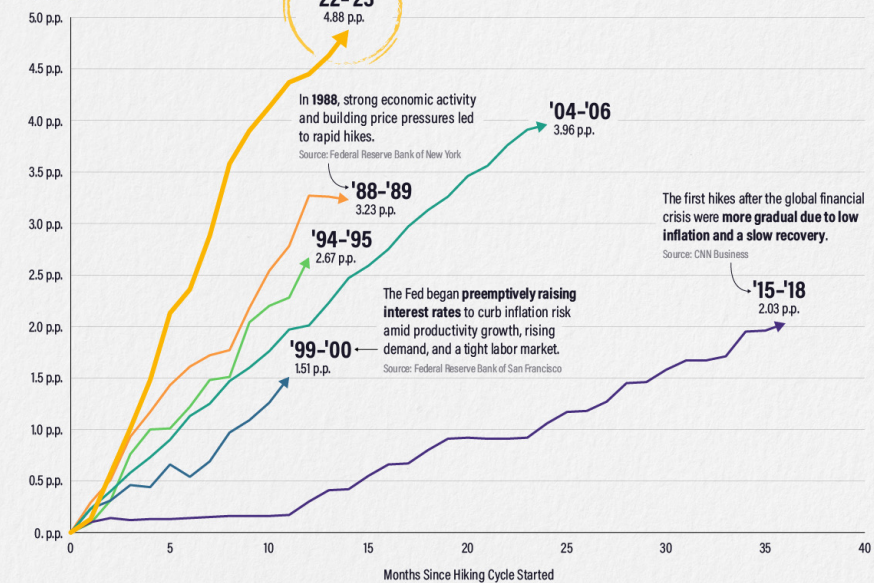
The Federal Reserve has aggressively raised rates to fight inflation. In just over a year, the effective federal funds rate has risen nearly 5 percentage points.

How does this compare to other periods of interest rate hikes over the past 35 years?

The effective federal funds rate is a weighted average of the rate banks use to lend money to each other overnight. It is determined by the market, but is influenced by the Federal Reserve's target.

### Change in Effective Federal Funds Rate

Percentage Points



Source: Federal Reserve. Chart inspired by Chart. Month 0 is the month when the first interest rate hike in the cycle occurred. The 2022-2023 cycle reflects the change in the effective federal funds rate up to May 2023. Data is monthly based on daily averages apart from May 2023 data, which uses data as of May 4, 2023. We considered an interest rate hike cycle to be any time period when the Federal Reserve raised rates at two or more consecutive meetings.



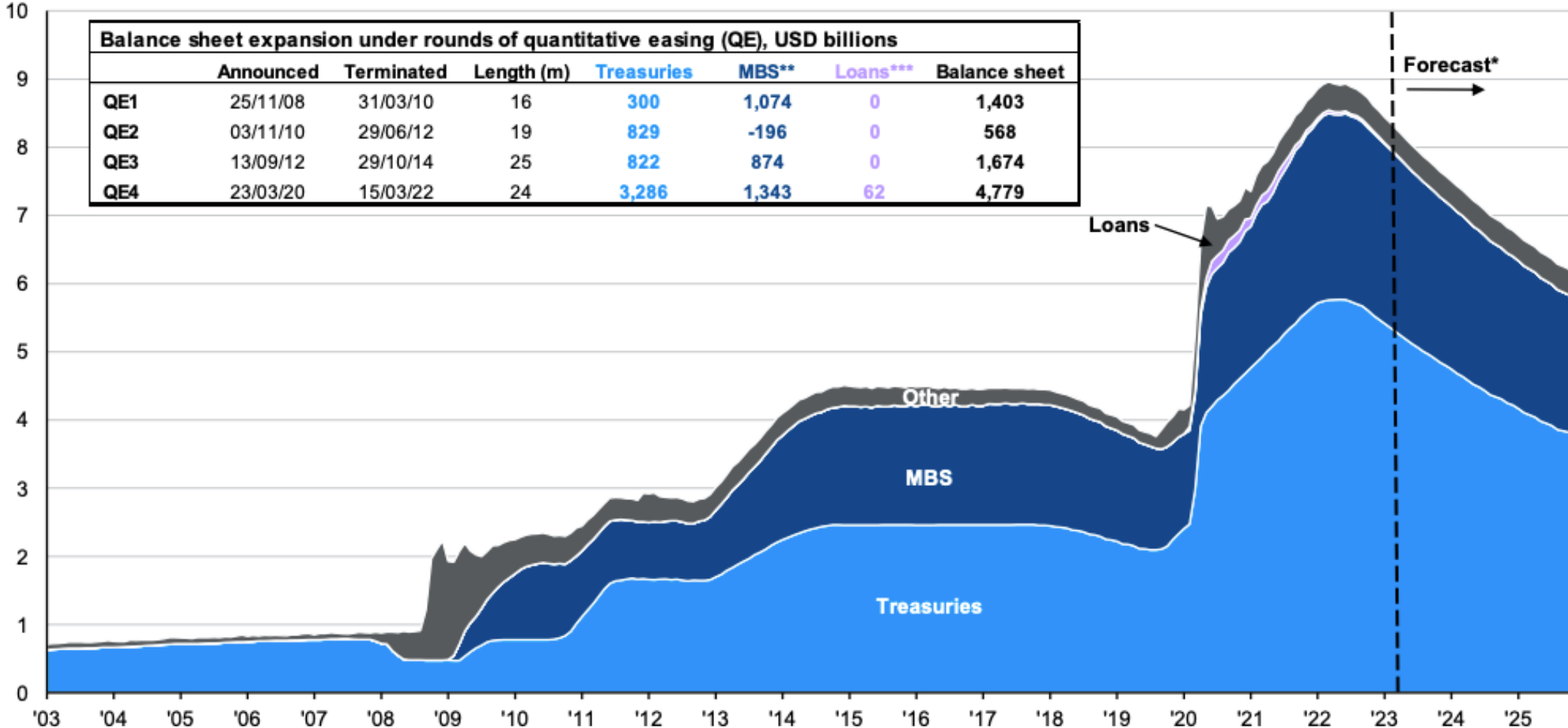
COLLABORATORS RESEARCH • WRITING Jenna Ross | ART DIRECTION • DESIGN Sabrina Lam

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# Burning Money

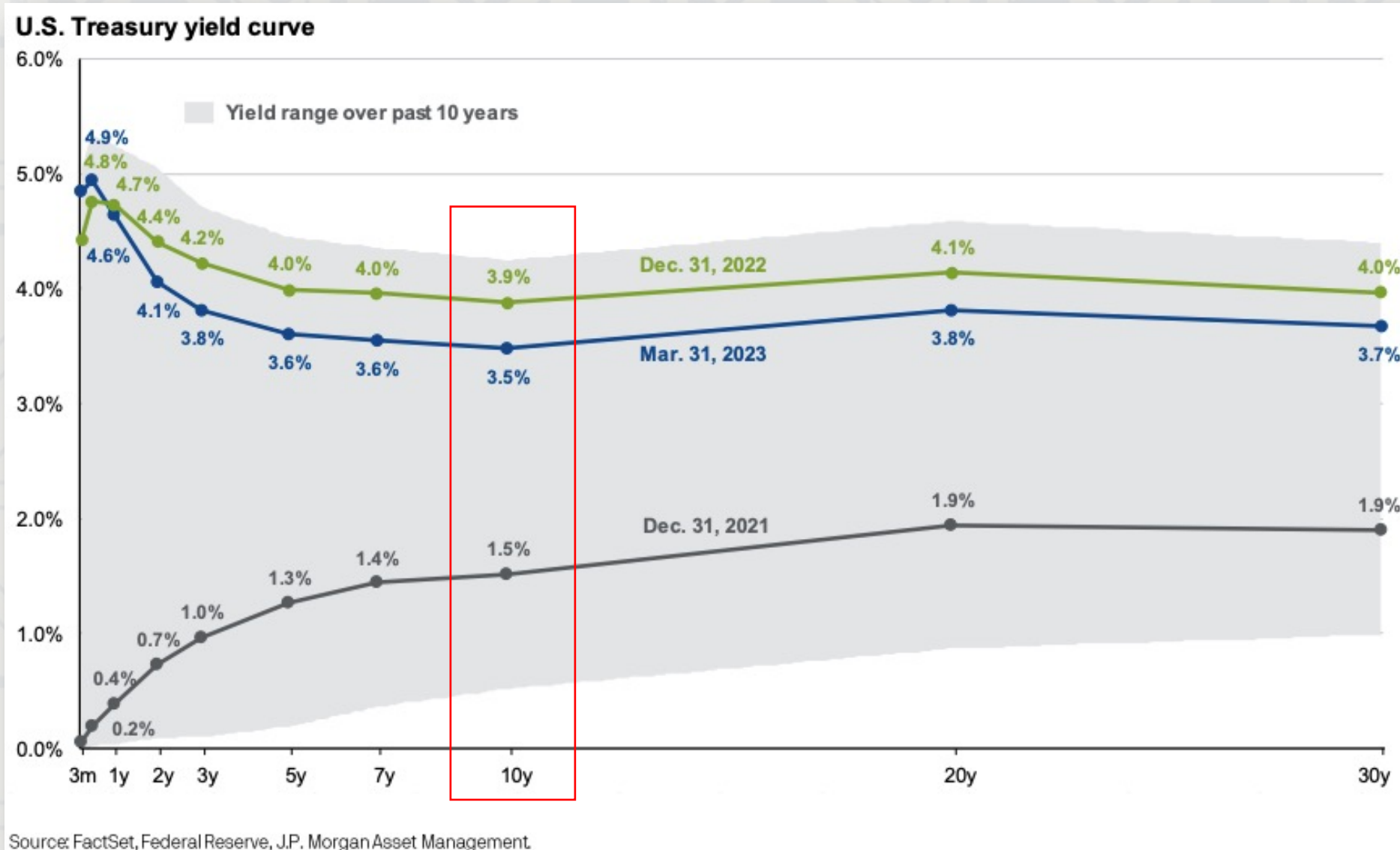
## The Federal Reserve balance sheet

USD trillions



Source: FactSet, Federal Reserve, J.P. Morgan Investment Bank, J.P. Morgan Asset Management.

# Two Slides on Fixed Income



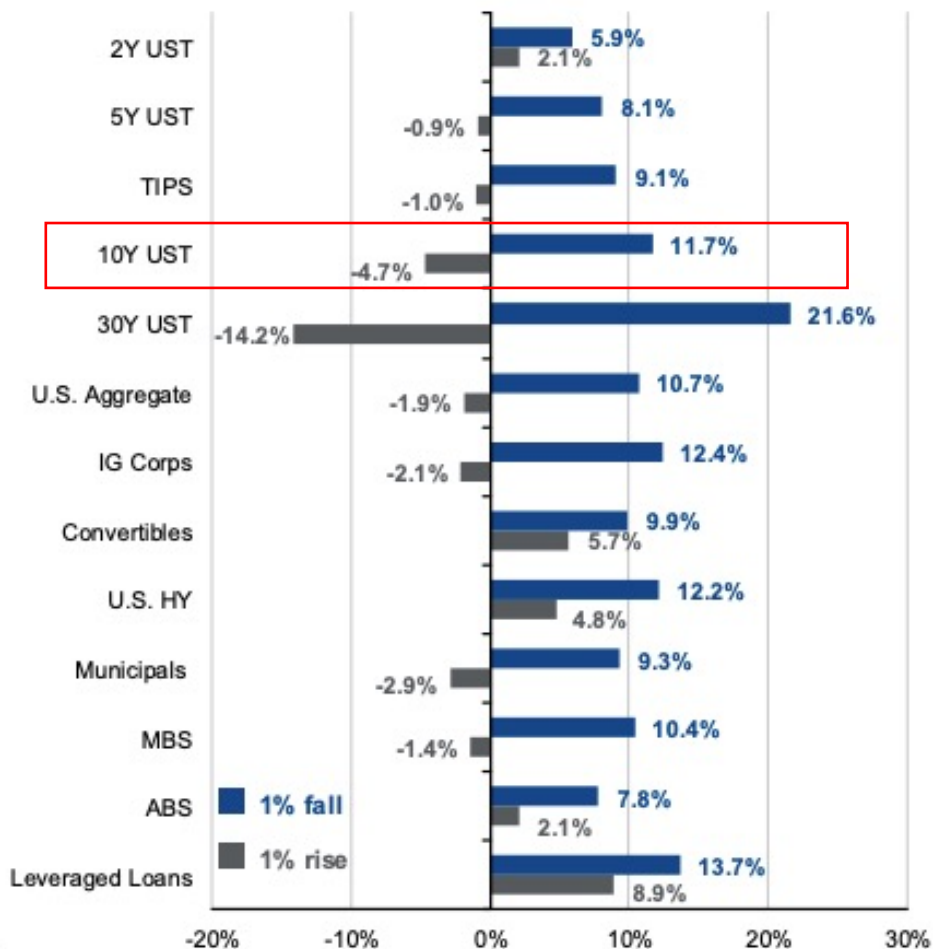


# Two Slides on Fixed Income

U.S. Treasuries	Yield		Return			
	3/31/2023	12/31/2022	2023 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	4.06%	4.41%	1.46%	2 years	0.74	-0.15
5-Year	3.60%	3.99%	2.39%	5	0.93	-0.13
TIPS	1.16%	1.58%	3.34%	10	0.61	0.37
10-Year	3.48%	3.88%	3.76%	10	1.00	-0.14
30-Year	3.67%	3.97%	5.99%	30	0.93	-0.17
Sector						
U.S. Aggregate	4.40%	4.68%	2.96%	8.5	0.86	0.22
IG Corps	5.17%	5.42%	3.50%	11.1	0.54	0.47
Convertibles	7.42%	7.58%	3.60%	-	-0.14	0.87
U.S. HY	8.52%	8.96%	3.57%	5.3	-0.10	0.74
Municipals	3.25%	3.55%	2.78%	13.0	0.53	0.22
MBS	4.51%	4.71%	2.53%	7.4	0.78	0.15
ABS	5.61%	5.89%	1.86%	3.5	0.21	-0.01
Leveraged Loans	11.31%	11.41%	3.26%	2.4	-0.34	0.59

## Impact of a 1% rise or fall in interest rates

Total return, assumes a parallel shift in the yield curve

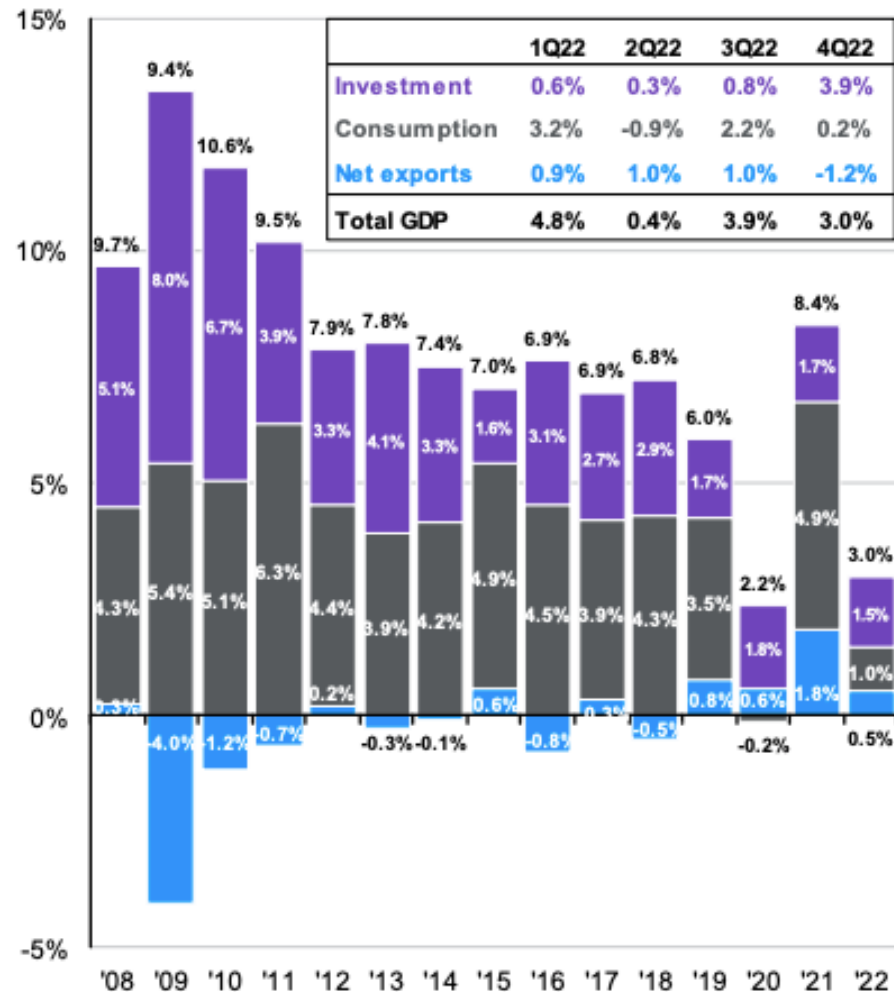


Source: Bloomberg, FactSet, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted.

# One Slide on China

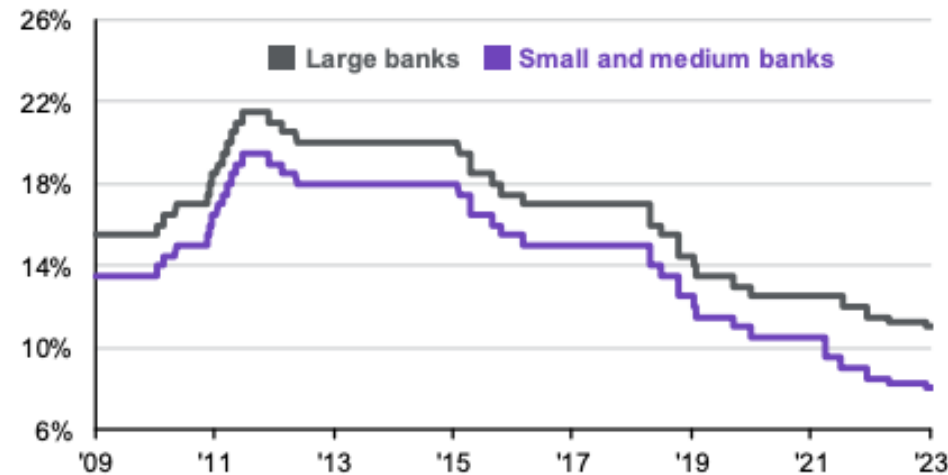
## China real GDP contribution

Year-over-year % change for GDP, contribution to GDP for components

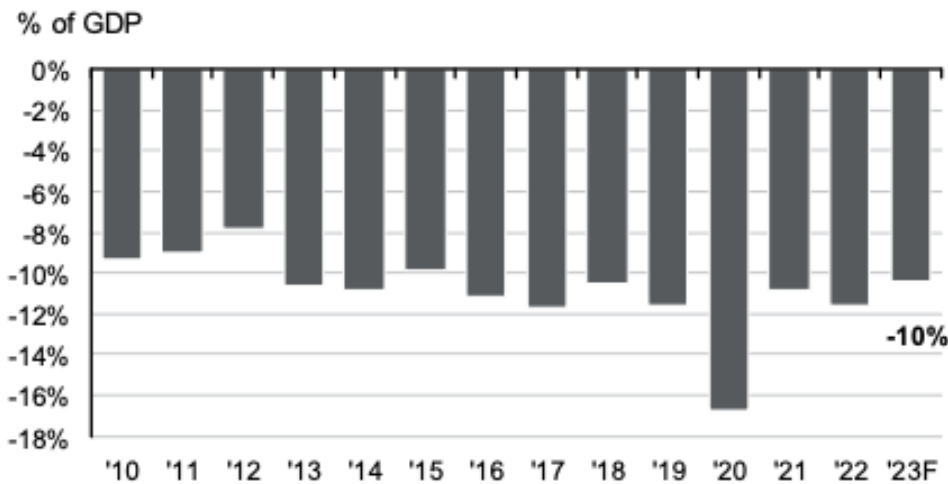


Source: FactSet, J.P. Morgan Asset Management; (Left) CEIC; (Top right) People's Bank of China; (Bottom right) China Agriculture Development Bank, China Development Bank, Ministry of Finance.

## Monetary stimulus: Reserve requirement ratio



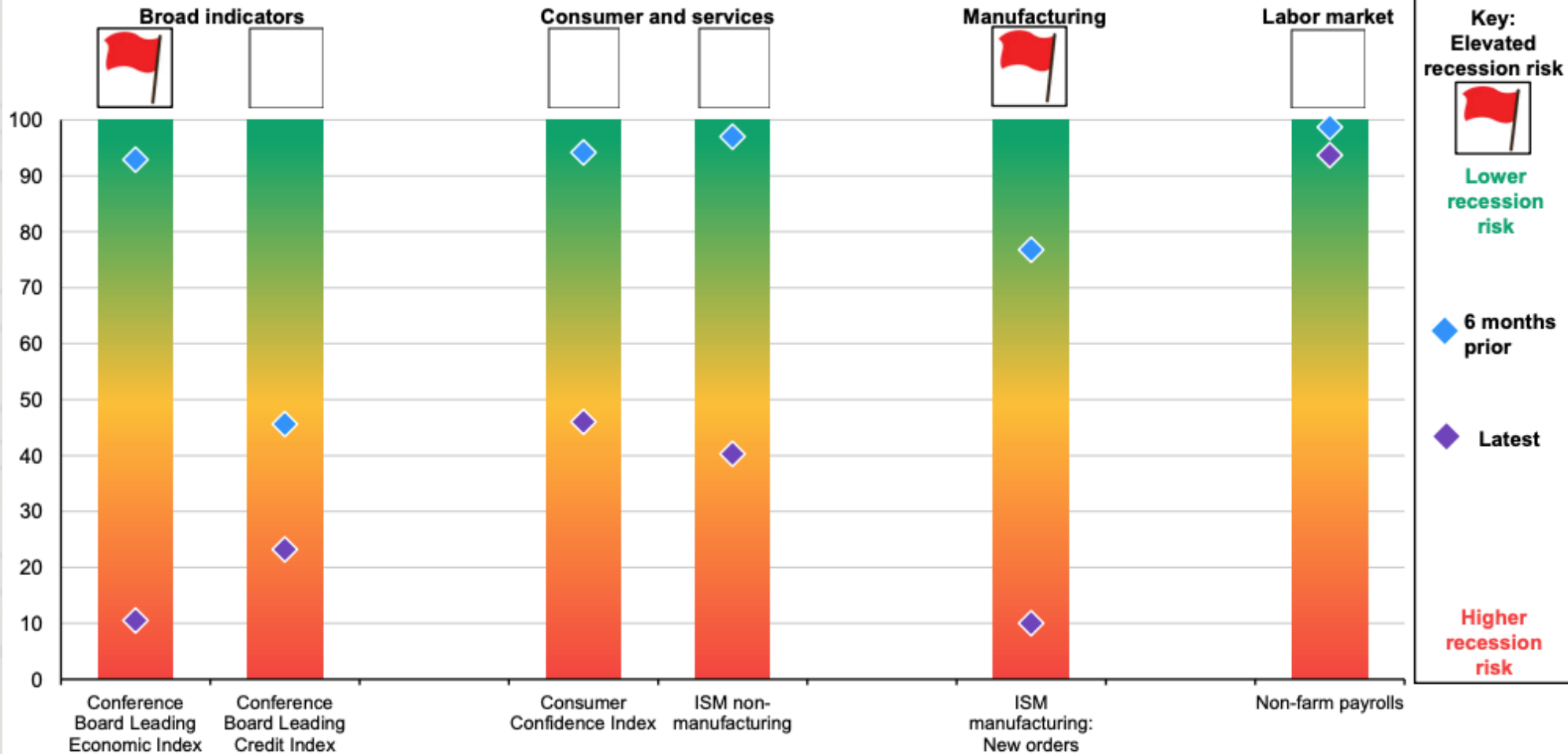
## Fiscal stimulus: Fiscal deficit\*



# Conclusions (2 out of 5 reg flags in US)

## U.S. economic indicators

Percentile rank relative to historic data since 1990



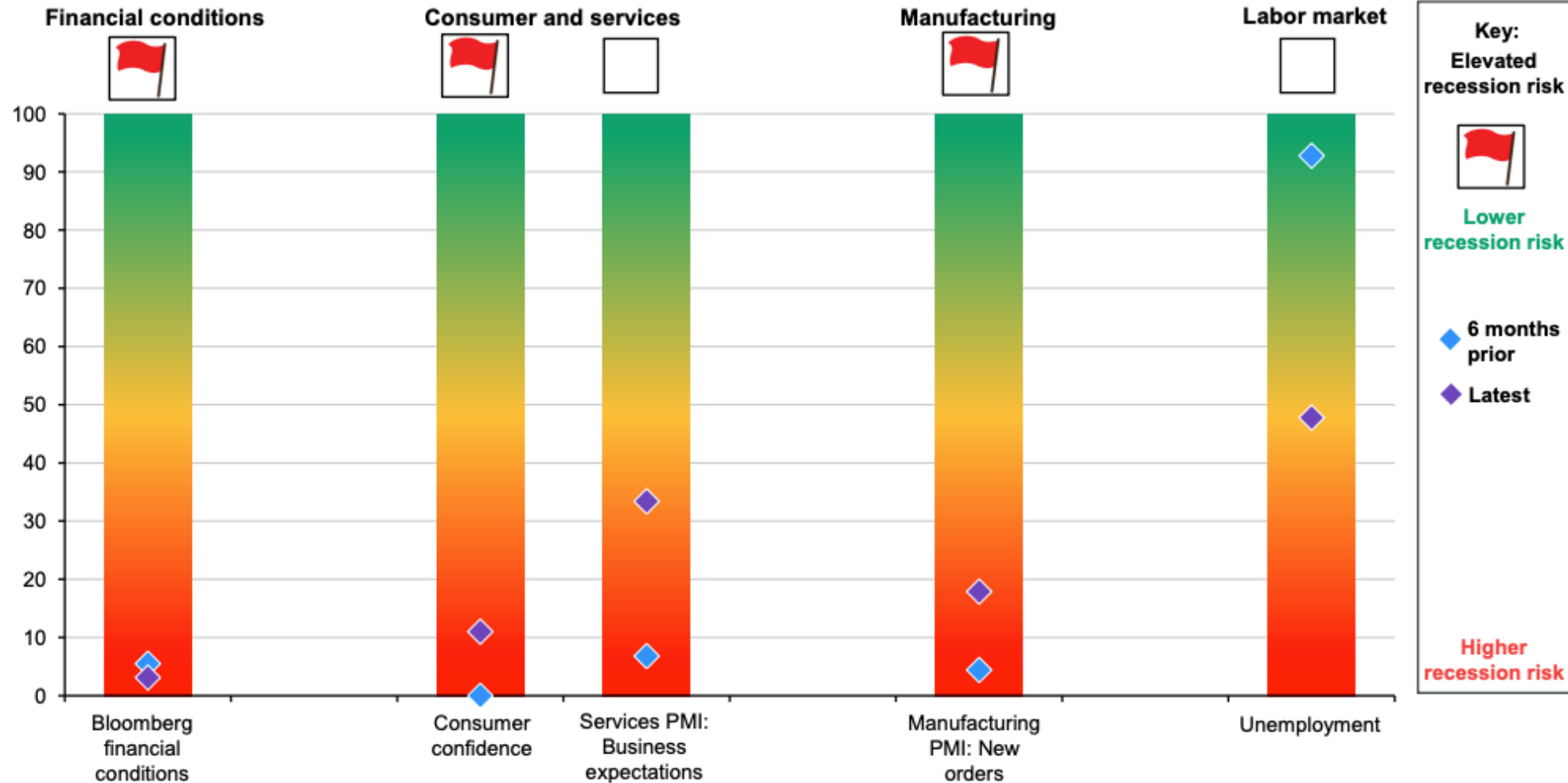
Source: Conference Board U.S., FactSet, Institute for Supply Management, U.S. Department of Labor, J.P. Morgan Asset Management. Elevated recession risk flags are



# Conclusions (3 out of 5 reg flags in EU)

## Eurozone economic indicators

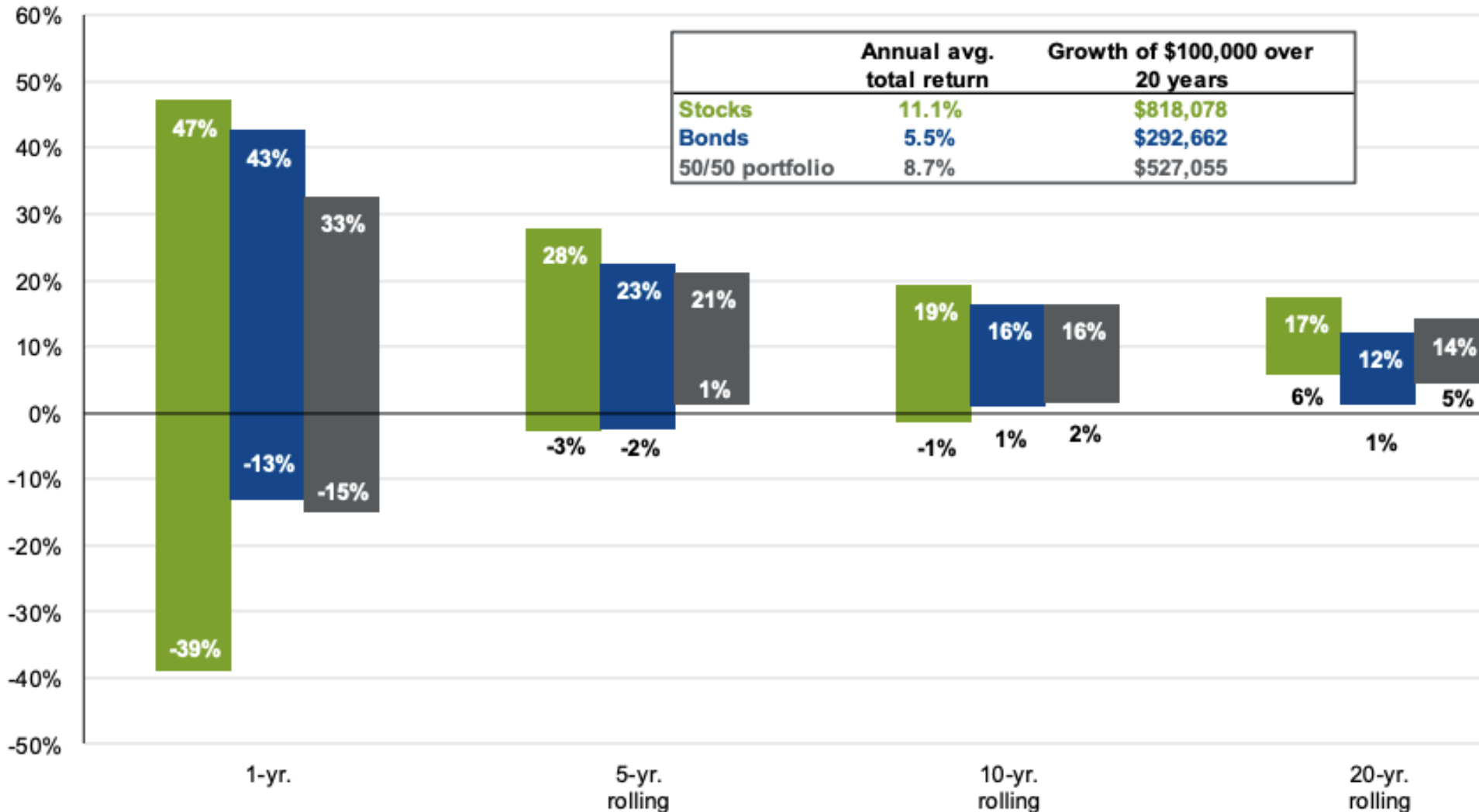
Percentile rank relative to historic data since 1999



# Conclusions (important for RFPs)

## Range of stock, bond and blended total returns

Annual total returns, 1950-2022

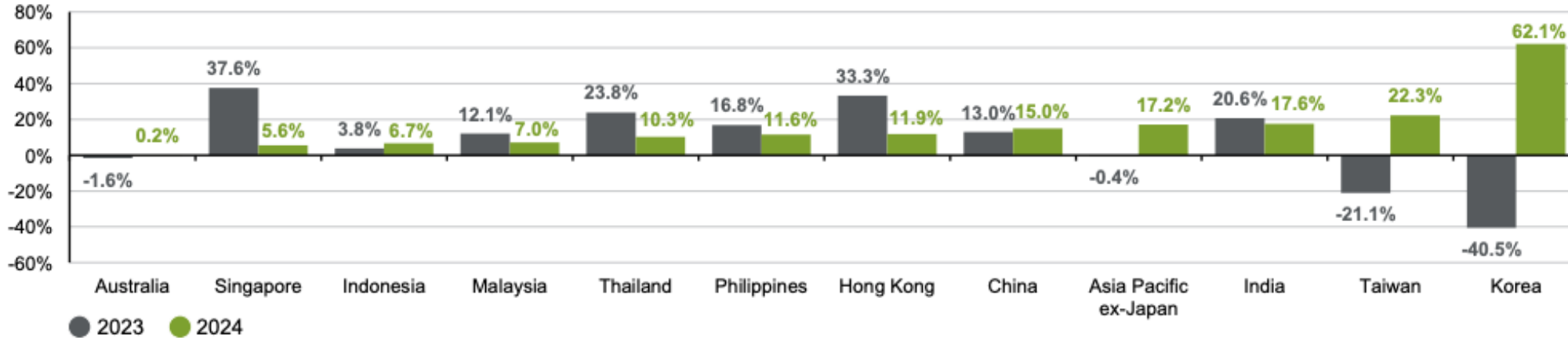


Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.

# Outlook

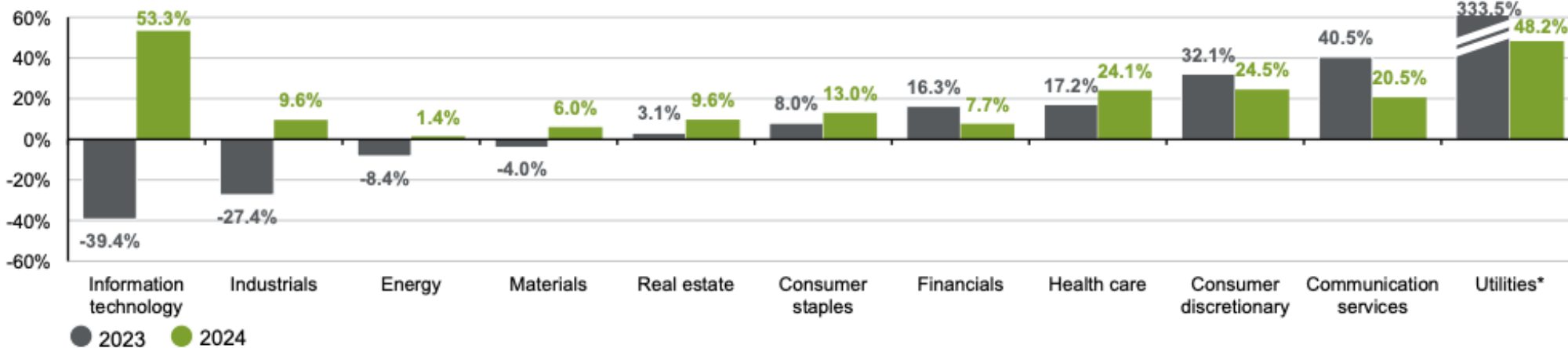
## Earnings growth by market

Earnings per share, year-over-year change, consensus estimates



## Earnings growth by sector

Earnings per share, year-over-year change, consensus estimates



Source: FactSet, MSCI, J.P. Morgan Asset Management. Consensus estimates used are calendar year estimates from FactSet. (Top) Equity indices used are the



# My Humble Advise



Mustafa Aydemir • You  
Senior Investment Analyst

05:33 ...

What did you do today for the Sustainable Development Goals? Chose one of 17 and help to make this world a better place!

👍 | 💬 Reply

👍 | 💬 Reply





# Saturna Capital



## **Amana Mutual Funds Trust**

Income Fund

Growth Fund

Developing World Fund

Participation Fund

## **Sextant Mutual Funds**

Growth Fund

International Fund

Core Fund

Global High Income Fund

Short-Term Bond Fund

Bond Income Fund

## **Saturna Sustainable Funds**

Sustainable Equity Fund

Sustainable Bond Fund

## **Idaho Tax-Exempt Fund**

Idaho Tax-Exempt Fund

# Saturna Sdn. Bhd.

## ASEAN Equity Fund

## ICD Global Sustainable Fund

## Private Mandates

## Saturna Al-Kawthar Global Focused Equity UCITS ETF



# Q&A

We're here to help you navigate through market volatility and focus on the long term.

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