

## Is the sector rotation still intact?



Until Friday, the stock market month of May showed its sunny side. Whether minimum taxation of multinational corporations, inflation or yield increases, the markets put everything away. Last week Friday, however, the major Western indices went out of trading with a significant minus. After the official U.S. Federal Reserve meeting on Wednesday, where the first interest rate steps have been announced only in the course of 2023 and inflation was no major concern, the president of the St. Louis Fed, James Bullard came forward on Friday and put this assessment into perspective. In his view, rate hikes would make sense as early as 2022, and the Fed would have to address higher-than-expected inflation in the coming meetings and come up with an appropriate response.

It was striking that the tech-heavy Nasdaq was able to hold up better than the broad market, while typical cyclical value stocks such as banks plummeted. At first glance, this doesn't fit the inflation storyline at all, because growth stocks are usually more sensitive to interest rate hikes

and banks benefit from higher yields. So, what happened?

## The Triple witching hour on the stock markets

Friday was the day of the so-called Triple witching hour on the stock markets. This takes place four times a year. On every third Friday in March, June, September and December, various derivatives such as options and futures expire simultaneously. This time it was the biggest options expiration in history, and the volume traded on the derivatives exchanges is many times that of the „normal“ stock exchanges. Big investors like hedge funds are trying to move securities prices in a favorable direction.

All of this sent the stock markets on a downward slide. One question remains, however: **Value vs. Growth is the trend still intact?**

### Value vs. Growth: Value had to accept a setback



Source: Bloomberg

In our opinion, one should not read too much into the movement, neither into the weaker stock prices nor into the countermovement of Value vs. Growth. In general, cyclical value stocks have already run far and the big tech stocks have barely posted any gains in recent weeks. There can be news-driven setbacks in an uptrend in the meantime. Large institutional investors, who had massively underweighted the large tech stocks in their portfolios, have recently made shifts. In our view, the fundamental support factors for the sector rotation remain intact: advancing economic recovery and a slow tightening of super-expansionary monetary policy. However, the uncertainty in this context (economy, inflation, interest rates) will always lead to counter-movements on the markets.

On 20.07. our Kathrein Online Outlook will take place once again. Please save the date! We will give a detailed insight into our market opinion and our portfolio positioning.

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