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Q3 2024 FX Market Outlook

August 8, 2024

FX Markets Update

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- JPY has been in headlines as it rallied ~10% since mid-July to beginning of August
- Carry portfolios suffered, though carry sell-off started earlier when MXN started depreciating post-elections
- Other DM currencies have been stable against USD, while high-carry EM sold-off
- JPY is still down YTD

12-Month USD-JPY performance

FX Performance as of Aug 6, 2024

	EUR	GBP	JPY	AUD	CAD	BRL	INR	KRW	MXN	ZAR
Mar 31 - Aug 6, 2024	0.7%	0.6%	2.0%	-0.2%	-2.0%	-10.0%	-0.1%	-3.0%	-12.5%	3.4%
YTD	-2.2%	-0.6%	-6.5%	-5.0%	-4.5%	-12.1%	0.2%	-7.1%	-9.2%	0.7%
12 Months	-2.6%	-0.8%	-8.1%	-2.2%	-3.9%	-10.3%	0.2%	-7.5%	-6.2%	2.8%

Source: Bloomberg, SECOR

JPY sell-off is mostly technical – real yield differential did not change

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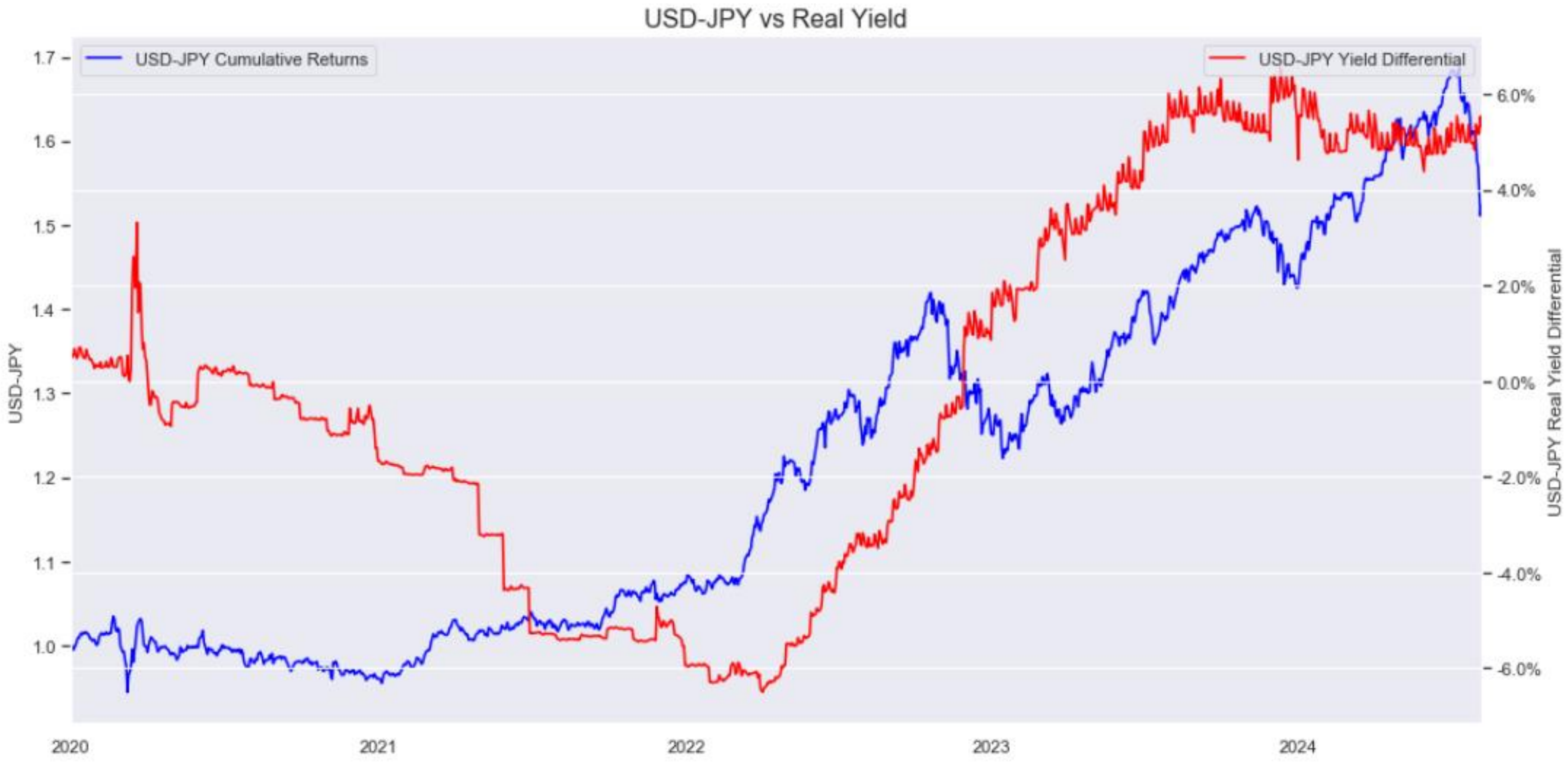
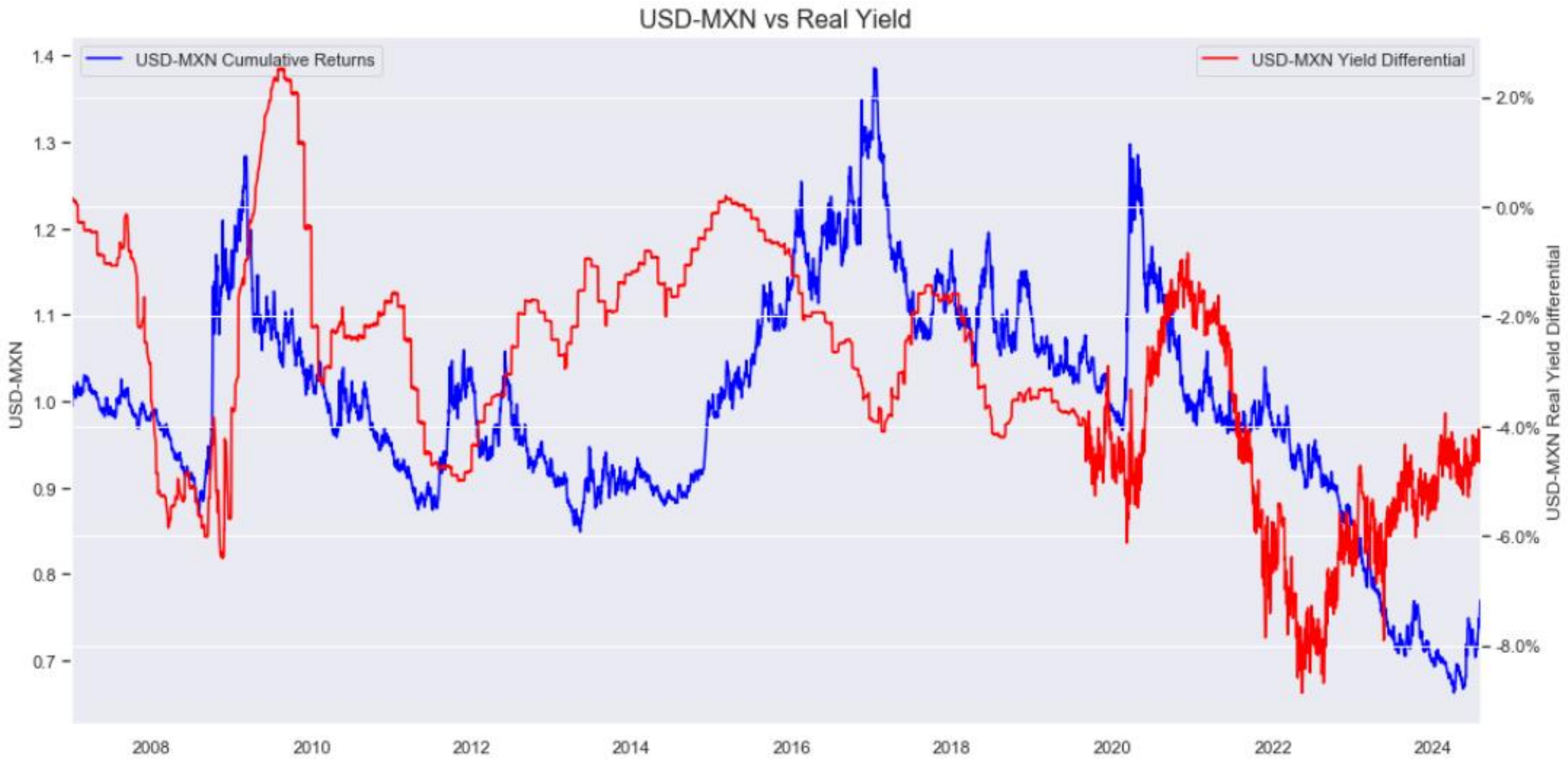
- Expectations of rising rates in Japan as well as of Fed cuts in the US change risk profile of the trade, but carry is still attractive, and JPY is likely to continue to be under pressure once the dust settles



Source: Bloomberg, SECOR analytics

EM currencies are playing a larger role in FX portfolios

- Liquidity in EM currencies has increased in recent years
- Both carry and volatility is much higher in EM, making them more attractive for active managers
- MXN is the most popular EM currency to trade



Source: Bloomberg, SECOR analytics

Conclusions / Summary

- USD is expensive versus other DM but it is supported by the US economy, interest rates and demand for Tech sector
- CNY remains at risk
- Carry should stabilize in the near future

Disclaimer (4 January 2024)

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Considerations and risks related to asset classes:

Equity investments involve a high degree of risk. Equity securities may decline in value due to factors affecting securities markets generally, and equity securities generally have greater price volatility than debt securities/investments. Equity securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Debt investments (such as, but not limited to, investment grade, high yield, emerging market debt, asset backed securities and insurance linked securities) involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

LDI and equity overlay strategies may invest and trade in many different market strategies and instruments (including securities, non-securities and derivatives) and may employ different investment, hedging, leverage and arbitrage methodologies, so the risks of those would be material to understanding the risks and benefits of the portfolio. Counterparty and ISDA arrangements may pose potential risk. Furthermore, derivative strategies may be exposed to the risk of market disruptions, volatility, and governmental interventions.

Illiquid investments (such as, but not limited to, private credit, private equity and infrastructure):

General/Loss of capital. Investment involves a high degree of risk. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Limited liquidity. Investments in private markets may result in restricted liquidity since withdrawal rights are limited and interests are not freely transferable or redeemable. There is unlikely to be a secondary market for private market investments interests.

Volatility. Investment techniques used may include the use of leverage and derivative instruments such as futures, options and short sales, which could amplify the possibilities for both profits and losses and may increase volatility.

Hedge Fund investing is speculative and involves significant risk including the risk of losing some or all of the invested capital. Hedge fund strategies may participate in the buying and selling of equity and debt securities, private investments funds, non-readily realisable investments, illiquid investments suspension of trading, concentrated investments, developed and emerging market investments. Hedge fund strategies may be exposed to risks stemming from usage of leverage, derivatives, futures, options, over-the-counter derivative transactions. Counterparty and ISDA arrangements may pose potential risk. Furthermore, hedge fund strategies may be exposed to the risk of market disruptions, volatility and governmental interventions.

Modelling Assumptions:

Forward looking return, volatility, and correlation assumptions have been derived by SECOR, and are based on a combination of: a) the historic performance of each asset class based on what we consider to be appropriate indices or suitable proxies, and over a period that we consider to be appropriate in light of prevailing market conditions (typically 10 years); and b) our judgement in relation to how historic performance, and its various components, may differ in the future. This may include, for example, ad-hoc adjustments to reflect our view that markets are over or under valued.

The resulting assumptions are assumed to be appropriate for asset and liability projections over the medium to long term i.e. 10 to 20 years or longer, and are net of all ongoing management costs and fees.

Expected returns for an asset class are generally built up from and include an allowance for our projected return on cash, inflation, spreads, risk premiums, liquidity premiums, potential losses, valuation adjustments, alpha for active management, management fees, other ongoing costs, and any other factors that we may consider are appropriate for the asset class and/or prevailing market conditions. Expected returns generally do not allow for SECOR advisor or fiduciary management fees, or any transition or rebalancing costs between asset classes or an existing portfolio.

A material risk factor is that the projected returns modelled are underpinned by historic market returns combined with SECOR's assumptions on future market returns, meaning that the projected net returns used for modelling portfolios may not be realised within expected timeframes.

Further details are available on request.