



CIO OFFICE MORNING MARKET WRAP – 1st April, 2022. ALSO AVAILABLE ON ALEXA.

Asian stocks are led down by Japanese equities this morning, while US futures are in the green and the treasury curve remains close to inversion. Oil has gapped down on the prospect of US crude reserves being released and gold and the US dollar are edging higher.

It is quarter-end and that stocks have recorded their first negative quarter in two years should be no surprise, having gone through their perfect storm for the first time in two years. Actually, we should see the glass half full, as markets have rebounded forcefully from their recent lows and defied a stagflationary scenario, an ongoing conflict and the outlook for sharply higher policy rates. And US treasuries suffered their worst first three months through March in 40 years, with inflation at the forefront of investor minds. The quarter started with the Omicron variant, witnessed the hawkish Fed pivot and the starting of the Russia-Ukraine conflict, which triggered spectacular commodity volatility. The quarter somehow broke records, as the unprecedented step to freeze the overseas assets of a central bank, the RCB, was taken, and two major blocks faced off in a confrontation where none gave an inch to each other. That was harder to expect than the invasion of Ukraine itself, hence gold was resurrected as the safe-

haven asset of last resort and made new highs for the year. The quarter has been marked by some of the major trends we saw unfolding across this decade and were flagged in our 2022 outlook, from a deteriorating growth-inflation trade-off to the outperformance of value versus growth in equities and more in general of commodities in a multi-asset portfolios. The typical 60-40 equity-bond portfolio suffered quite a drawdown, with treasuries no longer offering diversification in an inflationary environment.

Yesterday DM stocks recorded losses across the board, EM equities closed well in positive territory, the 10-year rate slipped, the US dollar and gold gained, while crude oil tumbled on the news that Biden would tap oil reserves for 6 months to control petrol prices. The yield curve once more flirted with inversion, triggering a flood of comments on a possible recession, though as per historical records contractions do not follow right after inversion, but way down the road.

All eyes are on inflation nowadays, yet the release of the gauge preferred by the Fed, PCE inflation, which was in line with estimates at the headline and core level, failed to make headlines. Both personal income and spending were below consensus and rose much less than inflation in the month of February, according to the Personal Income & Spending report. This means that real purchasing power is being dented by rising price pressures and we should expect a deteriorating trend in view of decelerating income growth. Recent consumer confidence reports pointed to plunging sentiment, so there is the risk that sooner rather than later unemployment gets affected. While the US economy is still vibrant, China is dealing with a prolonged soft patch, partly due to the extremely severe covid policy which saw renewed lockdowns. Business confidence as measured by the PMI report fell below 50, in contraction territory, in the month of March. Manufacturing bucked the trend of positive March seasonality, while services significantly undershot expectations. The authorities are expected to adopt further offsetting stimulus measures in the months ahead.

The OPEC meeting on output may have been a record one for brevity, lasting only 12 minutes. No surprise: no hikes in production on top of the pre-planned ones in spite of rising pressure on the cartel and the high oil prices. Saudi Arabia and the UAE underscored that politics should be kept out of discussions and that Russia is a key member of the group. The meeting took place before Joe Biden's announcement of the significant release of strategic reserves for a maximum of 6 months to cap gasoline prices. Strategic reserves constitute spare capacity, and reducing that spared capacity for policies which have doubtful effects can only reinforce the conviction about a tight market. Biden's decision is likely to eventually boost rather than depress prices.

Stay safe.

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