



CIO OFFICE MORNING MARKET WRAP – 1st July, 2022.

Stocks are struggling this morning following yesterday's negative session and treasuries are holding their gains as slowdown risks remain at the forefront of investor minds. Shares in Japan are falling, but edging up in Australia and South Korea. US futures are fluctuating after the worst first half for Wall Street since 1970, but bitcoin is rallying almost in the high-single digits as of the time of writing. Chinese equities are a bright spot in global markets, with the CSI 300 Index at the cusp of a bull market on the easing of Covid curbs and brighter economic signs. US stocks tumbled for the fourth straight session yesterday, as the S&P 500 closed down 0.9%, for a year-to-date performance of -21%. Energy, Discretionaries and IT led losses, while the Nasdaq recorded its worst start since 2002. The 10-year treasury yield lost 8 basis points to 3.01% and the 10-year minus 2-year spread held barely in positive territory. Brent crude, the US dollar and gold dropped.

Consumption and the overall US economy are losing momentum going into the second half of this year. This is the main takeaway from the personal income report, with a drop in real personal spending in May and prior months revised lower. Inflation weighed on purchasing power with data indicating weaker growth in services unable to offset a fall in goods spending. Total personal spending was at 0.2% and below consensus, real spending at -0.4%, nominal income at 0.5%, but adjusted for inflation and after tax basically flat. Price inflation was slightly below expectations, holding at 6.3% YoY, and core PCE was a touch softer at 4.7%. Overall, the slowdown in consumer spending adds to concerns about the outlook.

As the shocks hitting Europe and the US are intensifying, Asia's Covid drags are fading and Chinese stimulus is showing signs of working its way through the system. China's June official PMI surveys pointed to a rebound in activity with a significant recovery in services. The manufacturing index climbed back in expansion territory to 50.2, and the services one jumped to 54.3 underpinned by the easing of mobility restrictions. Adding policy supports to the whole picture supports some projections of high-single digit annualised GDP growth in Q3 this year. The Caixin PMI, focused on smaller and export-oriented companies, released today, has painted an even stronger picture of manufacturing in June, although export conditions are likely to be more challenging in the second half. Investors are coming back to Chinese stocks, deemed 'un-investable' just a few months ago. The largest US listed ETF tracking Chinese stocks, managed by Blackrock, saw on Wednesday its largest single-day inflow since its inception in 2011.

Bitcoin has jumped as much as 11% in early trade this morning and held above the June lows even amidst rife talk of a US recessionary outlook. As a gauge of investor risk appetite, renowned investors have observed that the digital currency tends to lead equities. Could, then, bitcoin rebound and stocks follow through? July has been a winning month for bitcoin in seven of the past ten years, with an average gain of 10.4%. According to Aaron brown, former head of financial market research at AQR Capital Management, bitcoin can be proxied with IT stocks, exhibiting a direct correlation with the Nasdaq, and gold, which tends to trade in the opposite direction of bitcoin. This makes perfect sense, as we need animal spirits to come back to see a sustainable rally in digital currencies, that is a bull market in IT stocks and lacklustre performance of gold. As the chief strategist at Principal Global investors rightly put it: "If anyone thinks that equities can rally into the back of the year, they are making the assumption that the Fed is going to let go of its entire focus on price stability". Both a bitcoin and an equity rebound can be in the cards, but something more sustainable requires the Fed's blessings.

President Joe Biden said he will ask allies in the Persian Gulf to boost oil production, when he meets them next month on a trip to Saudi Arabia. He said that the broader Gulf Cooperation Council Forum is the appropriate setting to advance a request to increase oil production.

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Chief Investment Office
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