



## **CIO OFFICE MORNING MARKET WRAP – Wednesday February 2, 2022. ALSO AVAILABLE ON ALEXA**

Tuesday was a good start to February for financial markets. Global stocks added +0.6% on average across regions, and interest rates had another quiet session. The US 10-year Treasury yield closed up +1 basis point at 1.79%. The price of Brent crude oil moved down -2% to \$89.4, still not far from a 7-year high, ahead of the OPEC+ meeting today. The fact that diplomatic talks are still ongoing about the situation in Ukraine also contributed. The trade-weighted dollar moved down -0.4%, which helped gold hold around the \$1800 mark.

Manufacturing activity indicators for January are not bad at all. The Markit Eurozone manufacturing PMI printed a healthy 58.7, marginally below forecast of 59, and the equivalent gauge for the UK was at 57.3, slightly above expectations. In the US, the ISM manufacturing came out at 57.6. All three are firmly in (fast) expansion territory, i.e. above 50, and so was India at 54, after China printed 50.1 two days ago. The measures for services to be released later this week should be less positive and reflect omicron's toll on activity. However, considering that daily infection numbers have

never been as high as in January since the start of the pandemic, the fact that economies remain open is a clear evidence that the world has learnt to live with the virus. Good news were not only on the macro front. From the various speeches from Fed officials, it seems now clear that the institution will adopt a calibrated approach to hiking interest rates. The probability of a 50 basis points increase in March is actually marginal. On the corporate front, the earnings season continued to beat expectations, with very strong numbers from Alphabet and AMD in particular. Google's parent company also announced a 20-for-1 stock split. All results were not great of course. Paypal saw the smallest increase in payments volumes in two years, still at +23%, and Starbucks missed estimates which can be explained by omicron.

Most Asian markets are shut due to the Lunar New Year holiday. The mood is positive in the few which are open, Japan and Australia, both up more than 1%. There is no notable move in interest rates and commodities there as we write, and future contracts on Western stock markets benefit from Google's post market rally. We held our monthly Tactical Asset Allocation meeting yesterday where we considered adding to stocks from developed markets. We decided to keep our current neutral positioning, but acted the intention to buy on dip and the possibility to do it very quickly when the opportunity arises.

Today we will look at the consumer price index for the European Community. Its year on year increase is expected to cool down from 5% in December to 4.4% in January. We will follow the OPEC+ meeting. Another oil supply increase of 400,000 barrel-a-day is probable and positive indications for more should not be excluded, however all members have not been able to fulfill their January allocation, while production in Libya is still seeing disruptions. Prices are high for a reason, and we will keep on monitoring the situation in Ukraine. We tend to think that an outright invasion is improbable. However, tensions are real and Russia seems to be in a strong position as the West excludes military action, and as the strategic leverage from the crucial Russian gas on Europe is very powerful. Today is heavy in the earnings season with quarterly numbers from Meta/ Facebook, Alibaba, Sony, Novartis, Julius Baer or Ferrari, to name a few. Tomorrow will provide PMI numbers for services as well as policy meetings from the ECB and BoE, while Friday will see the monthly US job report. Stay safe.

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