



## CIO OFFICE MORNING MARKET WRAP – 2nd June, 2022.

Wednesday was negative for most asset classes, following strong economic data in the US. The ISM Manufacturing index came out much better than initially expected: instead of a decline from 55.4 in April to the median forecast of 54.5, the actual May number is 56.1, pointing to an acceleration in manufacturing activity. Rate fears immediately escalated which pushed risk assets lower. US stocks closed down -0.8% while European indices lost around -1%. Interest rates were obviously on the rise. The 5-year Treasury yield added +10 basis points to 2.92%, surpassing the level of the 10-year now at 2.91%. Oil prices closed materially lower, with the Brent crude oil trading at \$116. According to the Financial Times, Saudi Arabia is ready to boost output to compensate for Russia if needed. The OPEC+ will meet later today but it may not formally address this particular point. Finally, the dollar gained against its trade-weighted counterparts, especially the yen, and major cryptocurrencies consolidated.

In the news, the data released yesterday confirm that the global economy is so far extremely resilient – after more than 100 days of war and despite China's zero COVID disruptions. This is not a good news for inflation expectations and central banks tightening of course, but it's not fundamentally bad news. The US economy is booming, Europe is steady, with a manufacturing PMI marginally higher in May than

in April at 54.6, and unemployment in the Eurozone remains close to record low at 6.8%. Finally, China could well turn the corner, assuming that the improvement on the COVID front is confirmed, with help from the government stimulus. This leaves us with of course a burning concern of inflation and massive tightening, supporting volatility, but it's better to have the economic margin of safety to stomach the adverse impact of higher rates. In other news, the Credit Derivatives Determinations Committee judged that a "failure-to-pay" event occurred on Russia debt. This technical default could trigger CDS, a derivatives swap protecting against default.

Markets are in the red this morning in Asia, but without panic. Interest rates are marginally higher with the US 10-year at 2.92%. Stocks are down -1.5% in Hong Kong and -1% in Korea but only -0.2% in Japan and unchanged in onshore China. The price of Brent crude oil falls another -1.7% to \$114, gold is steady at \$1844. Bitcoin trades at \$29,800 and ether at \$1830.

There is no major economic data release today, but tomorrow will be rich with the US monthly job report in particular.

Stay safe.

Chief Investment Office  
Wealth Management,  
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