



CIO OFFICE MORNING MARKET WRAP – 4th January, 2022. ALSO AVAILABLE ON ALEXA.

Monday was a strong start to the year for risk assets. Stocks added +0.5% across developed and emerging markets, led by the US and Europe gaining +0.6%. Interest rates were materially firmer: the US 10-year Treasury yield added 12 basis points to 1.63%, a bad start to the year for the fixed income asset class. Oil prices followed the cyclical trend, with the price of Brent crude oil moving up +1.5% to close just below \$79, despite the trade-weighted dollar also being sought after, up 0.2%, especially against the euro. In the corporate world, in a context of broad outperformance of big tech, the total market capitalization of Apple briefly touched the historically unprecedented level of \$3 trillion, and Tesla shares jumped +14% after the company announced record deliveries in Q4.

The big picture remains a combination of record-high daily infections with the willingness of looking through it, as the stress on healthcare systems currently looks manageable. At this point, market participants overlook the number of cases and the current travel disruptions to focus on the idea that there shouldn't be new large-scale lockdowns, and thus a limited drag on activity. Time will tell, but the current narrative for 2022 is about a completion of the recovery, with inflation stabilizing at levels which

will prompt central banks to tighten. This is also our scenario, but we certainly don't think that markets will reflect it in a straight line, without episodes of doubt and anxiety.

As we write, the mood is mixed in Asia. China's Caixin PMI Manufacturing index was just released at 50.9 for December, which is marginally better than both the consensus expectation for 50, and the November number of 49.9. This is not only good news for China, it tends to indicate that the normalization of the current supply-chain glut may be on its way, as output data are also improving in Korea and Taiwan. Chinese stock indices are however down -0.8% in onshore markets and -0.4% in Hong-Kong as China's central bank withdrew liquidity from the banking system. Japan and Australia are up this morning, catching up after yesterday's holiday. Interest rates and oil prices are anecdotally firmer, and gold is steady at \$1804.

Today will see a meeting from the OPEC, where the group is expected to approve another output increase of 400,000 barrels a day. Data releases will be rich, and culminate with the US ISM Manufacturing for December. After 61.1 in November, the median forecast is for 60 – it could be a bit better if we had to bet. Inflation numbers for December will also be released for France and Switzerland, as well as retail sales and unemployment for Germany.

Stay safe.

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