After a relatively quiet start to the week, risk aversion came back on Thursday. Global stocks fell -1.3% on average in developed markets and -0.5% in emerging ones. US indices sold off, with the S&P500 losing -2.4% and the Nasdaq -3.7%. Disappointing quarterly earnings from Facebook owner Meta were the main catalyst, and the company lost a record $250bn in market cap yesterday alone. Sovereign bonds were no safe haven, after the respective meetings from the Bank of England and the ECB. None of them surprised on the February policy announcements themselves, with a hike for the pound and the status quo for the euro. However, forward looking messages were clearly more aggressive than expected for both. Hikes in the eurozone are not excluded for 2022 anymore – but remember that the ECB main policy rate is still negative -0.50%. Anyway, bonds were under pressure yesterday across regions and maturities. The US 10-year Treasury yield gained 6 basis points to close at 1.83%. Even Japan and Germany are now paying modestly positive yields on their long maturities sovereign bonds.

With regards to commodities, the price of Brent crude oil moved up +1.8% to close above the $91 mark, and gold was steady around $1800.

Yesterday was also rich in economic data which overall confirmed that the global economy is losing momentum in the first quarter, which can be explained by the omicron variant. Actually, given the spread of the omicron variant, which pushes daily infection numbers to their highest since the beginning of the pandemic, the economic damage is indeed limited. Of course, the recent acceleration of services weakened across the board in January, but they are still open, and expanding. The US ISM Services came out yesterday at 59.9, lower than December’s 62 but above the median forecast for 59.5.
The same measure for Europe was at 51.1 and 51.5 in India. Meanwhile in our region, flash composite PMIs came out for the UAE at a very robust 54.1, and for KSA at 53.1.

Bottom-line, central banks are tightening more than expected, at a time when the economy is losing momentum, which exacerbates investors’ anxiety. It leads to significant volatility and no tolerance to any disappointment especially in the most popular segments of the market like big tech. This is what we call “low visibility”. It’s not the beginning of a bear market or early signs of a massive crash, it’s a different regime which should bring opportunities as long as growth remains favourable.

As we write this morning, Asian markets perfectly illustrate the current versatility: they are up. The catalyst behind is a huge +15% post market jump in Amazon shares, after they announced a solid set of results and a sharp increase in the fees they charge for Amazon Prime. Younger internet stars Snap and Pinterest also beat expectations. This is exactly the opposite situation as with Meta yesterday, and another illustration of the insane 2022 volatility. While Amazon pushes US future contracts higher, Asian markets with strong technology representation benefit. Hong-Kong is up +2.6% for its post-holiday reopening, and Korea gains +0.8%. The Nikkei is flat, and China’s domestic markets are still closed. Interest rates however don’t have the equivalent of Amazon to reverse their rising trend; they are steady with the US 10-year currently up another basis point, just below 1.85%.

The key data from today will be the US job report for January, and especially the number of job creations at 5.30PM Dubai time. The median forecast is for +125,000 job creations in January, but some economists expect it to be negative. Corporate earnings today will include Sanofi, Air Products, Tata Steel or Bristol Myers.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
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