



## **CIO OFFICE MORNING MARKET WRAP – Monday February 7, 2022. ALSO AVAILABLE ON ALEXA**

Government yields rose across US and Europe yet equities had a good week as markets are taking inflation more in stride and earnings are supportive. The 10 year US Treasury ended the week at a yield of 1.9% and German Bund yields entered positive territory (implying a positive deposit rate) yet equity markets no longer got spooked with the pick up in yields as a sign of rising inflation but recognized growth remains supportive and global equities closed the week up almost 2%. Both developed and emerging market equities rallied last week but not a broad rally overall with the US equity indices gaining but not Europe. Europe finished lower following economic data releases and monetary policy decisions from the European Central Bank and the Bank of England. The ECB held its benchmark interest rate unchanged but said it will slowly reduce its asset purchases and plans to end its quantitative easing campaign in March. ECB President sounded a hawkish tone regarding inflation, and expectations rose that the ECB could begin its rate hike campaign sooner than expected. The BoE hiked its benchmark interest rate by 25 bps for a second-straight meeting, while 4 of the 9

member panel wanted 50 bps. Geopolitical tensions between Russia and Ukraine also remain in focus and the possible impact on energy supplies to Europe. Expectations for the virus to be treated as an endemic globally are rising and Australia opens borders to visa holders after 2 years.

Hong Kong markets opened up over 3% on Friday after the Lunar day holiday and this morning are slightly in the red. China resumes trading today after a week long holiday and markets are up almost 2% this morning. Indian equities were up last week and are adding to last years gains, however UAE stocks while up YTD had a slightly negative week. The Reserve Bank of India rate decision is due Thursday. Both Brent and WTI are trading above \$90 and the energy sector continues to gain in synch. Gold this morning is at \$1810. Bitcoin is trading above \$42,000 the highest level in over two weeks.

Global equities are down 4.6% year to date after a very volatile January and a supportive start in February. Inflation has surprised to the upside, central banks are pivoting hawkishly, yields are rising, a record amount of stimulus is about to be withdrawn from the economy yet in the first few trading days of February equities rose, getting support from good earnings and inflows. This is however only the beginning of the removal of stimulus and we expect the lower liquidity will continue to create volatile swings in markets, providing buying opportunities.

The tightening cycle is getting more definitive with the strong US Friday jobs report validating the Feds intention to raise rates in March as a strong labour market is one of their conditions. The unemployment rate unexpectedly ticked higher to 4%, likely as a result of more people rejoining the workforce. Average hourly earnings increased 0.7% m/m. Compared to last year, wages were 5.7% higher. On Thursday we get the January US inflation report with expectations of 7.3% y/y.

The markets have seen some wild swings amid diverging earnings results from some of the largest U.S. companies adding to the volatility driven by tightening expectations. Earnings remain supportive, Q4 earnings season has over 50% of S&P 500 companies reporting results and y/y revenue growth is up nearly 16% and earnings about 27%. E-commerce and cloud leader Amazon, as well as Snap and Pinterest, beat estimates and rallied but Ford missed quarterly estimates and Meta Platforms disappointed with market share moving to TikTok. Earnings this week include AstraZeneca, GlaxoSmithKline, Pfizer, SoftBank Group, Toyota Motor, Twitter, Uber and Disney. Stay safe.

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