CIO OFFICE MORNING MARKET WRAP – 7th April, 2022.

It is a bad start to April for financial markets. If policy badly inflated equities post covid, the undoing of that support should not see them sitting close to their all-time highs, especially if the removal of stimulus must happen fast. And stocks slumped yesterday as more Fed officials expressed hawkish views, confirmed by the minutes of the March FOMC meeting. Technology continued to lead declines and the sell-off in bonds deepened, with investors positioning for a steeper monetary campaign. The Nasdaq 100 lost more than 2%, the S&P 500 1%, the yield on the 10-year note climbed briefly above 2.6%, the US dollar edged higher and Brent crude weakened. Bitcoin tumbled 4% to close below the 45,000-support level, and we should expect it to follow the direction of the broader market as risk aversion rises. This morning Asian stocks are falling under the prospect that the Fed’s bond holdings are planned to be reduced by $1tn a year even as rates will be hiked aggressively.

The release of the March FOMC minutes did not reveal many new details about the Fed’s future monetary stance. Investors had already suspected that the conflict in Ukraine had delayed a 50 basis-point hike in March, now more likely both at the May and June meeting, as “many” officials viewed more half-point increases as appropriate. The maximum monthly rate for the shrinking of the balance sheet is at $95bn, in line with expectations, but almost double the peak rate of 2017-2019, when the Fed last reduced its bond portfolio. And herein lies the rub. Starting from higher multiples and with a very brisk tightening ahead both in terms of rates and portfolio holdings, markets could feel the heat sooner rather than later. It is not a
coincidence that Bill Dudley, ex New York Fed president, has just authored a Bloomberg column titled “If Stocks Don’t Fall, the Fed Needs to Force Them”. Will investors wait to be forced, or will they rather promptly discount what is being spelt out very, very loud? The tightening is necessarily going to occur via financial assets simply because the healthy private sector’s balance-sheet requires no deleveraging this time. We are in an asset cycle, rather than a credit cycle, hence markets remain the transmission channel. The yield curve steepened after the publication of the minutes, and more should follow, as the Fed not reinvesting the matured bonds equates to less incremental liquidity available for longer-dated treasuries.

The US and China remain on diverging monetary paths. The State Council said that monetary policy will be used at an appropriate time to boost consumption. And Beijing most likely will have to loosen sooner, rather than later, in order to cushion the negative impact both of the covid lockdowns and the crisis in the property sector. As much as one central bank is spelling out a hawkish stance, the other is projecting dovish intentions. And actually a leading analyst said that the government is going to coordinate fiscal and monetary policy for the recovery to be sustained. If investors have learnt that central banks must not be fought, they should also take notice that US equities are historically expensive, while Chinese stocks cheap.

Each new day sees additional sanctions on Russia. It is the turn of the two largest banks and of President Putin’s daughters to be hit soon. The recovery of the ruble to pre-invasion levels may be casting some doubt on the full efficacy of additional measures, although US officials dismiss it entirely as an artefact of capital controls enacted within the country. Maybe. What should be of major concern is the growing risks of unintended consequences, the major one being a food crisis, at a global level. Crucial supplies of wheat, corn and barley are trapped in Russia and Ukraine due to the war. Last month the United Nations said that the impact on the food market could see an additional 7.6 million to 13.1 million people go hungry. Whoever lives on the brink of food insecurity could be pushed over the edge, and rising food prices have been a cause for social unrest in poor African and Arab countries. Yet, there is little hope that Washington and Brussels will also take these calculations into account when gauging sanction-versus-negotiation efforts. Joe Biden stood to his script that sanctions will cripple Russia’s economy for years and said that the war could continue for a long time.

Joe Biden’s remarks could have implications for gold and underpin its war premium. The yellow metal has not been perturbed by US real rates spiking higher, holding above the $1,900 support level. This could point to rising odds of a worsening conflict in the shorter term as investors discount further stagflationary pressures. In that case we could witness a renewed attempt to clear the all-time highs and a spike towards $2,200. We would deem that pricing as not sustainable, though, with the shrinking of the Fed’s balance-sheet in the meantime inflating gold’s war premium to new record levels as well.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD
DISCLAIMER

Reliance

Emirates NBD Bank PJSC ("Emirates NBD") uses reasonable efforts to obtain information from sources which it believes to be reliable, however, Emirates NBD makes no representation that the information or opinions contained in this publication are accurate, reliable or complete and should not be relied on as such or acted upon without further verification. Opinions, estimates and expressions of judgment are those of the writer and are subject to change without notice. Emirates NBD accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. Data/information provided herein are intended to serve for illustrative purposes and are not designed to initiate or conclude any transaction. In addition this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to the determination of whether a particular investment activity is advisable. This publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness provided thereto by unaffiliated third parties. Moreover, the provision of certain data/information in this publication is subject to the terms and conditions of other agreements to which Emirates NBD is a party. Anyone proposing to rely on or use the information contained in this publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts. Further, references to any financial instrument or investment product are not intended to imply that an actual trading market exists for such instrument or product. The information and opinions contained in Emirates NBD publications are provided for personal use and informational purposes only and are subject to change without notice. The material and information found in this publication are for general circulation only and have not been prepared with any regard to the objectives, financial situation and particular needs of any specific person, wherever situated.

Confidentiality

This publication is provided to you upon request on a confidential basis for informational purposes only and is not intended for trading purposes or to be passed on or disclosed to any other person and/or to any jurisdiction that would render the distribution illegal. The investor may not offer any part of this publication for sale or distribute it over any medium including but not limited to over-the-air television or radio broadcast, a computer network or hyperlink framing on the internet without the prior written consent of Emirates NBD or construct a database of any kind.

Solicitation

None of the content in this publication constitutes a solicitation, offer, opinion, or recommendation by Emirates NBD to buy or sell any security, or to provide legal, tax, accounting, or investment advice or services regarding the profitability or suitability of any security or investment and further does not provide any fiduciary or financial advice.

Third party

The security or investment described in this publication may not be eligible for sale or subscription to certain categories of investors. This publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. It is the responsibility of any person in possession of this publication to investigate and observe all applicable laws and regulations of the relevant jurisdiction. This publication may not be conveyed to or used by a third party without the express consent of Emirates NBD. The investor may not use the data in this publication in any way to improve the quality of any data sold or contributed to by the investor to any third party.

Liability

 Anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the this publication including, but not limited to, quotes and financial data; or (b) loss or damage arising from the use of this publication, including, but not limited to any investment decision occasioned thereby. Under no circumstances, including but not limited to negligence, shall Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries be liable to you for direct, indirect, incidental, consequential, special, punitive, or exemplary damages even if Emirates NBD has been advised specifically of the possibility of such damages, arising from the use of this publication, including but not limited to, loss of revenue, opportunity, or anticipated profits or lost business. This publication does not provide individually tailored investment advice and is prepared without regard to the individual financial circumstances and objectives of person who receive it. The appropriateness of an investment activity or strategy will depend on the person’s individual circumstances and objectives and these activities may not be suitable for all persons. In addition, before entering into any transaction, the risks should be fully understood and a determination made as to whether a transaction is appropriate given the person’s investment objectives, financial and operational resources, experiences and other relevant circumstances. The obligations relating to a particular transaction (and contractual relationship) including, without limitation, the nature and extent of their exposure to risk should be known as well as any regulatory requirements and restrictions applicable thereto.

Forward looking

Past performance is not necessarily a guide to future performance and should not be seen as an indication of future performance of any investment activity. The information contained in this publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Certain matters in this publication about the future performance of Emirates NBD or members of its group (the Group), including without limitation, future revenues, earnings, strategies, prospects and all other statements that are not purely historical, constitute “forward-looking statements”. Such forward-looking statements are based on current expectations or beliefs, as well as assumptions about future events, made from information currently available. Forward-looking statements often use words such as “anticipate”, “target”, “expect”, “estimate”, “intend”, “plan”, “goal”, “seek”, “believe”, “will”, “may”, “should”, “would”, “could” or other words of similar meaning. Undue reliance should not be placed on any such statements in making an investment decision, as forward-looking statements, by their nature, are subject to known and unknown risks and uncertainties that could cause actual results, as well as the Group’s plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Estimates of future performance are based on assumptions that may not be realized.

EMIRATES NBD CIO-OFFICE
**DISCLAIMER**

**Risk**

Data included in this publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk, and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records.

The use of this publication is at the sole risk of the investor and this publication and anything contained herein, is provided “as is” and “as available.” Emirates NBD makes no warranty of any kind, express or implied, as to this publication, including, but not limited to, merchantability, non-infringement, title, or fitness for a particular purpose or use.

Investment in financial instruments involves risks and returns may vary. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, prices and other factors and there is the possibility that you may lose the principle amount invested. Before making an investment, investors should consult their advisers on the legal, regulatory, tax, business, investment, financial and accounting implications of the investment.

In receiving this publication, the investor acknowledges it is fully aware that there are risks associated with investment activities. Moreover, the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in this publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with the investor.

**Intellectual property**

This publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others.

All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between the investor and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, the investor may not copy or make any use of the content of this publication or any portion thereof. Except as specifically permitted in writing, the investor shall not use the intellectual property rights connected with this publication, or the names of any individual participant in, or contributor to, the content of this publication, or any variations or derivatives thereof, for any purpose.

This publication is intended solely for non-commercial use and benefit, and not for resale or other transfer or disposition to, or use by or for the benefit of, any other person or entity. By accepting this publication, the investor agrees not to use, transfer, distribute, copy, reproduce, publish, display, modify, create, or dispose of any information contained in this publication in any manner that could compete with the business interests of Emirates NBD. Furthermore, the investor may not use any of the trademarks, trade names, service marks, copyrights, or logos of Emirates NBD or its subsidiaries in any manner which creates the impression that such items belong to or are associated with the investor or, except as otherwise provided with Emirates NBD, prior written consent. The investor has no ownership rights in and to any of such items.

Emirates NBD is licensed and regulated by the UAE Central Bank.

**United Kingdom**

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the London branch of Emirates NBD Bank PJSC which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority in the UK. Some investments and services are not available to clients of the London Branch. Any services provided by Emirates NBD Bank PJSC outside the UK will not be regulated by the FCA and you will not receive all the protections afforded to retail customers under the FCA regime, such as the Financial Ombudsman Service and the Financial Services Compensation Scheme. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.

**Singapore**

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the Singapore branch of Emirates NBD Bank PJSC which is licensed by the Monetary Authority of Singapore (MAS) and subject to applicable laws (including the Financial Advisers Act (FAA) and the Securities and Futures Act (SFA). Any services provided by Emirates NBD Bank PJSC outside Singapore will not be regulated by the MAS or subject to the provisions of the FAA and/or SFA, and you will not receive all the protections afforded to retail customers under the FAA and/or SFA. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.

Please contact your Relationship Manager for further details or for clarification of the contents, where appropriate.

For contact information, please visit [www.emiratesnbdciooffice.com](http://www.emiratesnbdciooffice.com)