



## CIO OFFICE MORNING MARKET WRAP – 7th June, 2022.

Stocks in Asia are mixed this morning as investors assess the jump in treasury yields on asset valuations and the economy, while US futures are slipping. The yen sank to a 20-year low providing a tailwind to Japanese equities, and Asian currencies tumbled alongside bitcoin, again below 30,000.

Yesterday equities came off session highs to close flattish, treasuries lost ground across the board and the dollar advanced as the prospect for continued Fed's tightening was brought into sharper relief by the strong US jobs report on Friday. Amazon advanced following the implementation of a 20-for-1 stock split, while Twitter fell after Elon Musk said that the company is breaching their merger agreement by failing to provide information about spam and fake accounts. Shares of Chinese ride hailing company Didi rose almost 25% on the US market as Chinese regulators are set to ease curbs on the company and other US-listed tech firms. Gold slipped and Brent crude hovered around \$120/bbl.

Yields across the US curve climbed at least by 7 basis points and the 10-year climbed back above 3% as investors await the May reading of the CPI, due out Friday. While consensus now believes enough evidence is there to say that inflation has peaked, the crux of the matter is how fast it will come down. A blend of data and intuition

suggests the descent could be rather slow. As for demand-pull inflation, a very low unemployment rate is not a great starting point, since that implies the necessity of sharper tightening for a quicker inflation descent. As for supply-push price pressures, the Global Supply Chain Pressure Index last released by the New York Fed in May is stabilizing at three standard deviations above normal, and that even without taking the war into account as a worsening factor. Will the Fed stop hiking at the neutral rate of just below 3%? Well, with these premises, it is safer to assume they may pause once there, to assess the effects of tightening and then carry on into restrictive territory, thereby obliging to the tradition of policy mistakes!

Market calls recently made by strategists are in line with some of our current equity country picks. According to Citigroup quant strategists US stocks rank again in the long basket both on momentum and valuations. Bloomberg analysts think Indian equities should be an EM overweight, as the country's economic overhaul progresses and corporate profit growth maintains a healthy clip. Consensus is also warming up to China where we now see the worst of macroeconomic news well discounted by the depressed valuations.

As for the recession debate, we would tend to think a hard landing is more of an event about two years down the line, not an immediate threat to markets. JPMorgan sees a slowdown now, not a 'hurricane', while Goldman Sachs believes avoiding a hard landing down the road would still be possible, though on a very narrow path for the Fed. Well, the historical record of just slowing down the economy amidst low unemployment levels and high price pressures is so poor that that narrow path eventually all but disappears.

As inflation remains in focus, oil prices logically do as well, as they cling to the \$120/bbl level, after all not very far removed from the all-time highs given the elevated crude volatility. China is reopening its economy and the drawdown of the Strategic Petroleum Reserves has had no effect, so the odds are not in favor of pullbacks, at least until the summer drive season is behind us. Washington is well aware of this, hence the possibility that sanctions on Teheran are relaxed. With the early November midterm elections looming, creative efforts to curb inflation are set to multiply.

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Chief Investment Office  
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