



CIO OFFICE MORNING MARKET WRAP – 8th April, 2022.

After the storm the calm, so markets stabilized following the release of the Fed minutes that caused heightened volatility on Wednesday. US equities pared early declines after the Nasdaq 100 posted its biggest drop in a month in the previous session. US 10-year and 30-year yields touched levels last seen in 2019, outpacing gains at the shorter maturities, and causing the steepening of yield curves as investors look to the shrinking of the Fed's balance sheet as reducing liquidity flows to longer-dated treasuries. The dollar reached new highs for the year, gold rebounded and crude slipped. Asian shares and equity futures are struggling this morning, with Hong Kong and China underperforming, while global stocks are recording losses for the week.

Hawkish commentaries of Fed officials continued yesterday, with James Bullard adding his tweak to the whole story, saying that rates should rise to 3% to 3.25% by the end of this year. Others like Charles Evans and Raphael Bostic would favor raising rates to neutral, and that would be to about 2.4%, so well above the median level of 1.9% of the overall Committee. Oliver Blanchard, former IMF chief economist, said it will "be very, very tough" for the Fed to slow inflation.

It seems that for now the United States and its allies must try to be happy with inflicting damage to Russia, while falling short of being able to cripple its economy. The ruble is strengthening further, Russian crude is being sold in Asia, China is paying coal in yuans, and gas flows to Europe have continued. As the Europeans become increasingly creative with new rounds of proposed sanctions, they show to what degree they are willing to shoot themselves in the foot to try to stop Putin. The ban on coal imports to be discussed would be hurting the Europeans the most, as providing supplies from elsewhere would prove to be quite costly according to analysts, and Russia would be able to find other buyers anyway. So, why bother? EU ministers should also discuss an oil embargo next week. A top US general said that the war in Ukraine is “going to be a long slog”, and it could last years according to the NATO chief. This underscores the determination of the West to go ahead until they succeed in crippling the Russian economy, so serious negotiations can be nowhere near in sight. On the ground, it seems that Russian troops are regrouping to focus on Ukraine’s East.

A longer war will heighten stagflationary concerns. Treasury Secretary Janet Yellen said that the rising price of energy, metals wheat and corn produced by Russia and Ukraine “is going to escalate inflationary pressures”. The war premium on gold would become stickier. Currently \$1,900 is the key support level and with a protracted conflict becoming more of a base case the all-time highs could be tested again.

Stay safe.

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