



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

Stocks in Asia are advancing this morning, with Japan leading gains, following US benchmarks yesterday ending at session highs. Longer-dated rates came back, gold and crude oil closed in the green, while the dollar slipped. The discretionary sector was the laggard, while energy stocks ripped higher and tech rallied strongly with Apple leading, as it announced it would enter the buy now, pay later sector. It is notable that sentiment did not turn sour in spite of Target Corp. issuing a profit warning, the second in almost three weeks, and the World Bank cutting the global growth outlook on stagflation dangers.

Abating market volatility could have to do with the expectation that China exiting lockdowns should see improvements in global demand. This must not be making the Fed any happier, looking for sources of slowdown rather than of buoyancy in the economy, but somehow was very agreeable to animal spirits, as US cyclical stocks outperformed defensives. Analysts at Goldman Sachs see a “strong rebound” in activity in June and July, in keeping with what has happened to other economies in the reopening phase. Valuations of the Chinese stock market are indeed attractive and there is growing evidence of rising foreign inflows. On the basis of the improving outlook for China and the appealing multiples, our Tactical Asset Allocation Committee

decided yesterday to raise exposure to emerging market equities to overweight, against a reduction in EM debt to neutral, less geared to growth. Also, basic resources stocks historically have tended to outperform when the Chinese credit impulse, driving the business cycle and hence commodity demand, inflects higher. Jefferies, the global investment banking firm, believing in a slow Chinese recovery upgraded the prices of key coal and iron ore producers.

Materials were indeed in focus as the Biden administration is pushing Congress to support a \$4.3bn plan to buy enriched uranium from US producers to wean America off Russian imports. The goal is to spur domestic enrichment via a guaranteed government buyer. The Global X Uranium ETF jumped.

On a less positive note the World Bank further cut its forecast for global economic expansion in 2022 to 2.9%, on 'high growth and slow inflation at the same time'. While this could seem to be an adjustment made looking in the rear-view mirror, the lender warned that several years of above-average inflation and below-average growth lie ahead, with negative impacts on the weaker countries.

This is then an economic regime change set to last, representing a marked departure from the Goldilocks decade we have just left behind, very much in line with the scenario traced out for the decade ahead in our Global Investment Outlook 2022 publication at the beginning of the year. The not so palatable investment implication is that financial assets would be underperforming real assets and the derating of equities would continue, with inflation driving multiples contraction.

In Germany price-adjusted new orders in manufacturing decreased in April MoM, for the third decline in a row. Also, in the euro area output growth was recorded in 15 out of 20 monitored sectors, the lowest proportion since March 2020, and construction activity fell in May. Europe remains exposed to the double whammy of more subdued Chinese activity and the non-abating Russia-Ukraine conflict, so one must have strong doubts about the ability of the ECB to pursue its tightening cycle past year-end in the wake of the Fed.

The RBA surprised with a large 50 basis-point rate hike to 0.85%, describing the rate level as still very low and vowing the withdrawal of further accommodation in the months ahead. It is joining the growing ranks of central banks very late in the fight against rising inflation.

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