CIO OFFICE MORNING MARKET WRAP – 9th March, 2022. ALSO AVAILABLE ON ALEXA.

Many commodities remain at high levels with Brent oil trading at $130, and gasoline and jet fuel in the US consequently at record highs. Gold is at a 19 month high at $2054 and palladium at a record high having gained 76% YTD. The airline industry which had faced a downturn due to the pandemic and hoped for a rebound has had to raise fares and cut flights. The US has banned import of Russian oil and gas into the US as they step up economic sanctions over the invasion of Ukraine. The move was matched by a UK ban on Russian oil imports. Only a small proportion of Russian shipments goes to those two markets. The EU did not follow and had already unveiled a plan to cut Russian gas imports by 80% within a year. This follows earlier sanctions on the Central bank, key Russian banks, top government officials and oligarchs. The LME suspended trading in nickel after a short squeeze that drove the price 250% higher over 2 sessions. Nickel prices have been rising with a reduction in supply from Norilsk Nickel, the largest global producer based in Russia. The wide gyrations in commodity prices have put crypto volatility on the back burner.

10 year Treasury yields rebounded to 1.84% as markets had a calmer day than the past 2 weeks. However, the gap between two-year and 10-year Treasury yields is around the narrowest since March 2020, a sign of expectations of slowing economic growth. The immediate impact of the Russian invasion into Ukraine is the heavy humanitarian toll paid by

Ukrainians with over 2 million already having been forced to flee their homes and many waiting for safe corridors to leave. Also, inflation expectations are hitting record highs for both the U.S. and the EU this week —with rising prices of raw materials from oil to metals, grains and fertilizers.

Global equities are down 13% YTD with EM and DM equities in synch. EM equities are marginally better. Asian markets are mixed this morning with Japan up and China and Hong Kong equities trading down. This follows Asian markets barring India, closing down yesterday. Moving West the UAE markets had small gains and European markets began the day positively but ended the day half a percent down. US indices seesawed in a wide range with the S&P 500 up 1.7% at one point to close down -0.7%. Commodity producing nations continue to lead returns i.e. the UAE, UK and LATAM. European markets had a better day yesterday as the EU is considering joint bond sales for financing needs as it begins to reform its military and energy infrastructure following Russia's invasion of Ukraine. The proposal may be presented after the EU's leaders hold an emergency summit in Versailles, France, that starts Thursday, with details yet to be worked out on the debt sales and how much money they intend to raise. More than 40% of EU gas imports and one quarter of its oil come from Russia. While the EU can source liquefied natural gas from the U.S., it will be more expensive. Germany plans to ramp up military outlays, set to spend 100 bn euros to modernize its army. Germany will hit a NATO target of allocating at least 2% of GDP to defense.

We held our asset allocation meeting yesterday with no major changes in positioning. We remain overweight equities, we had added to DM equities recently, we already had a small overweight to EM equities. On the granular level we added to US equities and lowered Europe ex UK. We took India to neutral as it is an oil importer and added to the UAE. We remain underweight fixed income, recently we had reduced our underweight in DM government bonds. In credit we reduced EMEA and added to GCC and Asia. Cash is slightly underweight while alternatives are modestly overweight. On gold we have been neutral. Our economist team view is that European growth may need to be revised down but US and EM growth would need smaller tweaks but importantly no recession in sight. Ongoing supply chain issues and high inflation pose challenges to growth. GCC growth for 2022 is on track at 5.7% for the UAE and 7.5% for the KSA supported by oil revenue. Of course dynamics remain in flux and views will change in response to the ongoing geopolitical events.

On the corporate news front Apple introduced 5G versions of its low-end iPhone SE and iPad Air tablet, a redesigned Mac desktop computer. Coca-Cola, Paypal and Pepsi joined McDonald's, Starbucks and a host of other companies in suspending Russia operations Shell will stop new purchases of Russian oil. Amazon's cloud-computing unit will stop accepting new customers in Russia and Belarus. Today we get the EIA crude oil inventory report, and ECB President Lagarde briefing after the policy meeting and U.S. CPI, initial jobless claims, tomorrow.

Stay safe.

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