



CIO OFFICE MORNING MARKET WRAP – 9th May, 2022.

US futures and Asian markets are off to a bad start this morning. The S&P 500 and Nasdaq 100 contracts are shedding over 1% and Japan is leading Asian stocks lower losing over 2% as of the time of writing. China's bourses are in the red as well, as data are expected to show the continued toll from lockdowns. Premier Li Keqiang warned about the Covid situation as the two main cities tightened virus curbs.

With sentiment weighed down by the tightening of liquidity conditions, persistent stagflationary pressures and a raging conflict, stocks suffered the fifth straight week of losses amidst rising volatility. The S&P 500 dropped by 0.2%, but Europe and the Emerging Markets fared much worse closing more than 4% lower. Long-dated yields reached new highs for the year, the US dollar strengthened, and crude oil remained range-bound but well supported. Overall, with the US economy still resilient, higher policy rates fully discounted and deflating equities one could have some reason to look at the glass as half full. But the big unknown remains the impact of Quantitative Tightening on markets, with previous precedents all pointing to disruptive effects.

The much-awaited Fed response to the highest US inflation in decades was as per market expectations, with a 50 basis point May hike, more hikes lying ahead and the announcement of the shrinking of the balance sheet to start in June. At the same time it came across as lacking given how badly the Fed has fallen behind in its fight against price pressures. Powell's verbal communication at the Q&A session carried as usual the most significant message, saying that the neutral rate, the one above which policy becomes restrictive, is "between 2%

and 3%”, while failing to mention that that estimate holds only once inflation is back to the 2% target. So, now that neutral gauge would be way higher with the CPI rate running at 8.5%. Also, as per the official statement “inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures”, which highlights an implicit “transitory” narrative still prevailing in the thought process. So, one would indeed question the true commitment of the Fed to fighting inflation beyond the official rhetoric. This should explain the market reaction, very bullish on Fed’s decision day that saw long-duration assets outperform and more bearish in the following sessions, with equities breaking support levels and yields moving higher.

The jobs report was just slightly below forecasts, with 428,000 new payrolls created in the month of April, pointing to an extremely strong labor market. How happy must Mr Powell have been about this print, as he is aiming for a slowdown, actually compatible with a jobs creation of only 100,000 per month historically? The unemployment rate held steady, while average hourly earnings rose less than the previous month. Loss of momentum in wage dynamics or just noise? One datapoint won’t allow us to tell.

Market direction will be driven by the tightening of financial conditions following the accelerated shift away from easy money not only in the United States, but across the G7 countries. Markets have consistently been affected by swings in central bank balance sheets, and with asset purchases estimated to be reduced by \$410bn in the remainder of 2022 in the Group of Seven, there is a legitimate concern about struggling equities until the bulk of liquidity withdrawals has been achieved. The surging US dollar and rising treasury yields are adding to tighter conditions, with the former still acting as a safe-haven and boosted by higher real rates, and the latter possibly now close to fully discounting a more hawkish Fed.

Are indeed longer-dated yields in America close to being toppish? We do not know for certain, though we must observe that in the past the 10-year yield tended to peak close to the terminal rate level, that is the policy rate markets have expected to be reached at the end of the tightening cycle. According to market-implied levels the terminal rate is slightly above 3%. Our year-end fair-value for the 10-year treasury yield, currently trading at around 3.1%, is at 2.8%. In summary, residual upside should be limited from here. There are caveats to this benign view, though. The main one is that Fed officials themselves are data dependent. As Citadel hedge fund founder Ken Griffin remarked at the Milken Global Conference, inflation receding to 4% by year-end “will give the Fed much more latitude”, otherwise they “will have to hit the brakes pretty hard”.

The release-rich week highlighted the yawning gap between the US and the Chinese business cycle, the former barely dented by the volatile backdrop while the latter in a protracted slowdown now with harsher contours. The ISM Manufacturing print was below expectations, overall less optimistic than in the recent past, yet still upbeat at 55.4. Business sentiment pointed to both demand and supply issues, with the economy slowing down and shortages still constraining production. On the other hand, in China both the manufacturing and the services surveys remained below 50 plunging to the lowest levels since February 2020. The prolonged lockdowns are taking a heavy toll on the economy and keeping pressure on global supply chains. President Xi made the contradictory statement that he promises to meet the economic targets while sticking with the zero-Covid policy. Obviously, something will have to give, and it does not seem that that will be Xi’s stance.

The Russia-Ukraine conflict is dragging on with no quick end in sight, remaining a source of stagflationary pressures and in general market tail risks. The rift between Russia and the West is huge and growing, with the EU now planning to phase out Russian oil in an “orderly fashion” by year-end, as per President von der Leyen’s words. Russia in turn intends to annex the

occupied regions as quickly as possible by imposing ruble payments, Russian representatives in local governments and eventually holding referendums. The contours of the conflict are becoming much more ominous, though. The US would like to ensure a “strategic defeat” for Russia, while Russia seems to want to control the South of Ukraine, thus landlocking the remainder of the country. Over-ambitious plans on both sides could see them in the conflict for the long haul.

Week ahead. Tuesday - Germany ZEW Survey; Wednesday - China CPI and PPI release, US CPI release; Thursday - UK 1Q GDP, India CPI release, US PPI release; Friday - Euro area Industrial Production, University of Michigan Consumer Sentiment. TBA - China Aggregate Financing and New Yuan Loans.

Stay safe.

Chief Investment Office
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.

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 information, please visit www.emiratesnbd.com

Emirates NBD Bank (P.J.S.C.) is licensed by the Securities & Commodities Authority and subject to regulation, supervision and control of the Authority.
Head Office : Baniyas Road, Deira, PO Box 777, Dubai, UAE.