



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

Markets were generally weaker yesterday, with US stocks retracing part of the previous session's gains and declines extending to all but one of the major sectors. Crude oil's relentless rise, as Brent broke out above \$120, brought inflation and monetary policy concerns back to the fore. Oil inventory data highlighted an ongoing supply crunch, benchmark yields topped the 3% level, while gold and the US dollar traded lacklustre. And this morning is seeing a follow through, with Asian markets falling on sustained oil prices and Shanghai reintroducing some Covid curbs. US and European equity futures are sagging alongside treasuries, while the euro is advancing ahead of the ECB meeting.

Chinese US-listed stocks put in three days of back-to-back gains after China approved a second batch of video games this year, interpreted as a sign regulators are softening their stance towards the sector. The Nasdaq Golden Dragon China Index gained almost 3% yesterday. Yet, the DZ Bank AG's contrarian analyst who was the first to issue a sell call on tech shares remains unconvinced and maintains his sell recommendation, with some IT heavyweights potentially still having 20% downside. For him to reverse his call, he would like to see a deal preventing the delisting of Chinese firms, a step-back from anti-monopoly rules and an uptick in consumer

confidence. That's quite of an ask, and we stick with our call of a tactical rally on EM stocks, ourselves unsure about when so many positives supporting a structural bull market will be lining up.

Views about how the Fed's tightening process will end seem to be converging towards an ultimate policy mistake. Ray Dalio said that the current monetary cycle will hurt markets to such an extent that the Fed will be forced to slash rates in 2024 before the presidential election. This would be consistent with forecasts of a US recession two years down the line, whose negative effects would be then dampened by looser policy. Should this be the case, the post-Covid recovery would be one of the shortest and most violent in history. Dalio's words are also in line with what is now discounted by money-market futures, with the December 2024 Eurodollar contract sitting above the December 2023 one, so baking in some easing in 2024.

The OECD is the latest institution to warn on global growth, which was revised down to 3% for 2022 in its economic outlook. Also, the forecast for inflation amongst its members was doubled to 8.5%. Again, it is a story of stagflation set to hit real income and spending, hence "the most vulnerable households". The OECD view that transpires clearly is one of the world economy paying a "hefty price" for Russia's invasion of Ukraine, so much so that they think that how inflation and growth will progress 'will depend on how the war evolves'. To an extent that is a sensible expectation. But from a less war-centric observatory we would remark that the commodity super-cycle was identified by investment houses before the onset of Covid and our Global Investment Outlook 2022, pointing to a decade with a worsening growth-inflation trade-off, was conceived before the invasion of Ukraine.

Global central banks, the PBoC being a notable exception, are in tightening mode and yesterday it was the Reserve Bank of India's turn to raise the key interest rate, lifted by 50 basis points to 4.9%, to curb price pressures running above target since the beginning of the year. The inflation forecast for the year ending in March was raised to 6.7%, above the 2%-6% corridor set by the RBI.

Bonds counterintuitively rallied, as the hike was discounted, and the governor said he would support the completion of the government record-borrowing program. More than 50 monetary authorities have made a restrictive move by at least 50 basis points so far in 2022.

The central-bank-response-inflation sequel is set to continue, with investors looking to the ECB expected Thursday to wind down trillions of euros of asset purchases preparing the ground for hikes in July, and to the US CPI data to be released on Friday.

Stay safe.

Chief Investment Office
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