Global equities have started off 2022 down 1.5% in the first week of trading, with U.S. equities faring worse -1.8% for the week with the high growth tech sector selling off, the Nasdaq Index fell 4.5%. The US and tech sector fall started midweek following the release of the hawkish minutes from the Fed's December monetary policy meeting. In addition to double the pace of monthly asset purchase tapering, the minutes also suggested that multiple rate hikes could be in the offing for 2022. Looking through the details it seems the Fed could be much more aggressive in their tightening campaign than initially expected. The Treasury yield curve steepened, and the 10-year yield has moved from 1.51% at the end of 2021 to 1.76% at the close of last week weighing on the growth-related sectors, Technology and Communications Services, and pressuring the interest-rate sensitive Real Estate sector. Amid a third-straight weekly gain in oil prices, the rise in yields, persistent inflation pressures, and still solid economic and earnings growth, cyclically-natured sectors—Energy, Financials, and Industrials—outperformed. With the potential that the Fed could get more aggressive and uncertainty regarding how many rate hikes we will see this year, next week's Senate Banking Committee hearing on Fed Chair Powell's nomination for a second term is important. Also weighing on Fridays U.S. performance was the December nonfarm payroll report, job growth missed forecasts, even though the unemployment rate dropped more than expected. Consumer credit however has soared to its largest level on record, positive for bank earnings. Overall markets seem to be more resilient to the rapidly spreading omicron variant as its impact looks to be less severe and more reactive to Central bank policy tightening as a result of persistent inflation pressures.
The U.S. dollar is higher on the week, gold fell to $1796 and Brent oil is trading close to $82/ barrel. Cryptos Bitcoin and Ether had a rough start to the year. European equities finished the week only marginally down. Economic data has been good except inflation numbers. For November German industrial production dipped, though exports rose. French consumer spending rose more than expected as did Eurozone retail sales but the preliminary estimate of Eurozone consumer price inflation came in higher than expected at 5.0% y/y for December. Emerging markets fared better last week than their developed market peers though still down. Stocks in Asia finished mixed with India up and China down. UAE markets saw the Dubai Index up and Abu Dhabi down for the week. We have begun 2022 with a neutral stance to developed markets as the path to policy tightening will create volatility and opportunities to buy on dips. We have a very slight overweight to emerging markets on better valuations.

Friday sees the start to the U.S. Q4 earnings season, a focal point for the markets as the big U.S. banks begin to deliver results. 22% earnings growth is expected for S&P 500 companies and eco data is supportive. The Q4 earnings growth rate is expected to mark the fourth-straight quarter of growth above 20%. This week we will also get a look at the December inflation picture, with the releases of the Consumer Price Index (CPI), the Producer Price Index (PPI), December retail sales report and the preliminary January University of Michigan Consumer Sentiment Index.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
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