



## CIO OFFICE MORNING MARKET WRAP – 11th January, 2022. ALSO AVAILABLE ON ALEXA.

Markets remain volatile with intraday and daily swings from negative to positive territory and vice versa. This morning in Asia, mainland China stocks are trading down while the Hang Seng continues yesterday's gains with China tech stocks rallying after weeks of sharp falls. India's Sensex continues last week's gains. Japan closed for a holiday yesterday is trading down half a percent today. U.S. markets reversed a 2% drop to close almost flat. The Nasdaq briefly fell into correction territory intraday, dropping more than 10% from an all-time high in November to close up 0.1%. Treasuries are weaker with some curve steepening. 10-year yields holding at 1.76%. Dollar better vs euro while little changed vs yen. Gold up to \$1806. This morning cryptos Bitcoin and Ether are trading up after a week of losses. Our positioning: We are neutral developed market equities with a slight overweight to emerging market equities and a preference for the UAE and India. We remain underweight sovereign bonds with a preference for emerging market dollar debt and are neutral on high yield. We recently went neutral gold.

European markets remain largely aligned with U.S. markets and have had a negative week which continued into a broad fall of 1.5% yesterday. Euro area flash CPI increased to a record 5% y/y in December driven by elevated energy, food, and tobacco categories. However, core CPI remained unchanged from November's 2.6% print. UAE markets uptrend continues with the better valued Dubai equities gaining. Brent oil is little changed after rallying 5% last week. Oil prices rallied into the new year as December global production levels fell short of OPEC+ supply. Social unrest in Kazakhstan and outages in Libya continued to raise supply-side concerns, despite OPEC+'s commitment to increasing

output by 400,000 barrels per day starting in February. The energy sector has rallied alongside oil, with drillers particularly strong.

The U.S. market remains focused on the big backup in bond yields (driven by real yields) and selloff in riskier pockets of the market such as the Ark Innovation ETF, unprofitable tech, biotech, solar, SPACs, and crypto. Markets also somewhat factoring in a rate lift-off in March and expectations for an earlier start to Quantitative tightening. Omicron headlines continue to revolve around high transmissibility and related worker shortages. US unemployment fell to 3.9%, and US non-farm payrolls added 199,000 jobs, missing consensus estimates of 400,000. The unexpected slowdown in hiring suggested that limited labor supply remains a constraint on employment growth. Inflation in focus on the economic calendar this week with Wednesday's release of the December CPI. Headline inflation expected to increase at the fastest pace in four decades (+0.4% m/m and +7% y/y). The Fed will keep inflation from becoming entrenched, but post-pandemic growth may look different from previous expansions, according to Fed Chair Powell. "The pursuit of our goals will need to take these differences into account," he said in remarks released ahead of the Senate re-confirmation hearing.

Equity markets can tolerate gradual rate hikes however the sharp increase in yields will continue to cause volatility in high growth tech sectors and while the more profitable companies will perform based on their underlying positive fundamentals, highly valued and unprofitable tech will see the deeper sell off. A Goldman Sachs index that tracks the shares of lossmaking tech companies has fallen by more than 10% last , more than double broader techs 5% fall. In company news Take-Two Interactive Software agreed to acquire Zynga at an enterprise value of \$12.7 bn. Both companies are on our recommended list. Internet gaming stocks which had a stellar 2020 were burnt by China restrictions last year. Zynga shares are up 40% on the news while Take Two fell 13%.

Q4 earnings season kicks off this week with several of the big banks on Friday, with high expectations. According to BofA's Flow Show report, global equities attracted a record \$949 bn of inflows in 2021, exceeding the cumulative inflow of the past two decades. Inflow trend has continued into 2022 with global equities bringing in \$25.6 bn in the week-ended 5-Jan.

Stay safe.

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