



CIO OFFICE MORNING MARKET WRAP – 11th April, 2022.

Volatility remains the name of the game this year. Last week was no exception, with the Fed's hawkishness sending shockwaves across markets, starting with long duration assets such as government bonds and growth stocks. The minutes of the March FOMC meeting confirmed support for at least one 50 basis points hike and for a possibly imminent start of the balance-sheet runoff. Indeed, inflation is everywhere and the US March CPI which will be released next Tuesday is expected to show a month-on-month increase of at least 1%. Uncertainty was also exacerbated by the war in Ukraine and a still large Omicron drag in China. As a result, gold was the only positive asset class last week, with all others falling between -1 and -2%. The picture is now similar year-to-date: gold is up +6.5% so far in 2022, while all others are down between -1% for hedge funds and -10% for emerging markets debt, with govies and stocks in the -6% to -8% range. Thursday and Friday were quieter, but the levels of interest rates remain impressive compared to their recent history. The 2-year Treasury yields 2.5%, while the 5-year is at 2.75%, surpassing both the 10-year at 2.7% and the 30-year at 2.72%. This supports the dollar, which is at its highest level against trade-weighted peers in 2 years. Stocks were down -1.5% on average across regions last week, and the price of Brent crude oil ended the week -3% lower at \$102.4.

In the news today, the first round of France's presidential election saw incumbent Macron leading, with far-right candidate Marine Le Pen being the challenger for the second round. This is the same runoff as 5 years ago, and polls indicate the same final outcome, although with a smaller advantage for Macron. 10-year French bond yields are on the rise due to the increased Le Pen risk. The war keeps on raging in Ukraine with Russia expected to widen its offensive in the east, under the leadership of a new commander for its military. Boris Johnson made a surprise visit to Kyiv. According to the World Bank, Ukraine's economy will almost half this year while Russia's should contract by at least 11%. In Pakistan, a no-confidence vote by lawmakers will end the tenure of Imran Khan as Prime Minister; his successor could be Shehbaz Sharif, who is said to be closer to the military and to the US. In China, March inflation numbers were just released and they slightly exceeded expectations for both consumer and factory-gate prices. The CPI is up +1.5% year-on-year, a contained level in absolute but an acceleration from the +0.9% over the 12 months ending in February. The PPI is up 8.3% year-on-year, which by contract shows a modest deceleration compared to February.

As we write this morning, stocks and bonds are both falling in Asian markets. The US 10-year yield just touched 2.77%, up +7 basis points, while the 5-year is at 2.82%. Stocks are down -2.5% in both Hong-Kong and China's onshore markets. Tech shares suffer, again, after Beijing released a new set of guidelines aiming at curbing data monopolies from internet giants. Equity indices lose -0.7% in Japan and -0.4% in Korea. Futures on Western stock markets are also lower, and the dollar is up. The price of Brent crude oil is down -2%, just above \$100, which can be linked to fears of moderated demand due to China's covid issues – Shanghai in particular remains locked down. Major cryptocurrencies continue to drop from their recent highs.

We will hold our monthly tactical asset allocation committee tomorrow. We will change our central scenario for the year, around the accelerated tightening from Western central banks and the amplifying effects of the war in Ukraine on a backdrop combining slowing growth with rising inflation. At this stage we keep on thinking that global growth is dented rather than derailed, but uncertainty should remain extreme. The good news is that so far the global expansion is resilient, and that valuations have improved in many asset classes.

In the week ahead, US inflation data will be released this Tuesday, with headline CPI expected to show a +8.4% year-on-year increase. The earnings season will then kick off with US financials, starting with JP Morgan, followed by Morgan Stanley, Goldman and Citi among others. Most Western markets will be closed on Friday for Easter weekend. The ECB will meet on Thursday.

Stay safe.

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