



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

Investors looking for an impending rebound can maybe rejoice. Equities are rising in the Asian morning session, with mainland China bourse up more than 1% and US futures pushing higher as well. Tech stocks yesterday led broader market gains amidst a volatile session, as well-known names like Nvidia, Tesla and Microsoft jumped more than 3% and the bellwether semiconductor sector gained 4%. The S&P 500 was up less than 1% and European equities closed in positive territory as well. Treasuries rallied, while commodities continued the previous day's slump across the board. Breadth measures, that gauges sentiment by counting rising and falling stocks, reached oversold levels which in the past kickstarted market rebounds.

Could there be a catalyst for sentiment to reverse on a dime? Though difficult to tell, there is some dots we could connect. Market-implied measures of inflation are retreating rapidly, most likely driven by the slump in base metals and the fall in oil prices, and long-dated treasuries are rallying. Investors could be looking to a potentially benign inflation release today. In the April CPI report core inflation rose less than in the previous month and base effects now kicking in would suggest that this one should see price pressures start abating. The ingredients for a relief rally should be there, but more catalysts must fall into place for a market bottom, though within Goldman Sachs strategists are starting to find equities attractive for "medium to longer-term buyers".

Meanwhile, in April producer and consumer inflation were both above expectations in China, with the PPI at 8% and the CPI accelerating to 2.1%, as covid lockdowns caused supply-chain constraints and pushed people to stockpile on food. The authorities seem set to continue with policies of zero-covid tolerance, supported by a latest Shanghai university study finding that otherwise China would risk a “tsunami” of corona virus infections, even as the WHO called on Beijing to rethink such inflexible strategies deemed in the end to be unsustainable.

Could the rally of king dollar see a pause? Possibly, as peak Fed hawkishness may have been reached, thus letting up pressure on shorter-dated yields, and the ECB would start lifting rates in July from record lows if next month forecasts are pointing to a strong pricing outlook. ECB Governing Council Nagel sees the “need to act” and net bond purchases halted at the end of June. Central banks on both sides of the pond are indeed minded to prioritize the fight against inflation versus growth, in spite of the euro area being more directly exposed to the recessionary risks stemming from the Russian-Ukraine conflict.

Conviction about a commodity super cycle unfolding and set to last years is gaining traction. This was echoed by the alarm sounded by the Saudi and UAE oil ministers about the decreasing spare capacity across the energy sector, with anything from crude to diesel and natural gas trading at record highs. According to Saudi minister Prince Abdulaziz bin Salman “the world is running out of energy capacity at all levels” due to lack of production investments. Saudi Arabia and the UAE are among the few producers investing in greater output, while most others are supply-constrained and private companies struggle to get funding amidst the shift to renewable energy. Higher oil prices could be a durable market feature as under investments would make OPEC+ unable to deliver sufficient production when demand fully recovers from the pandemic.

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Chief Investment Office
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