ALSO AVAILABLE ON ALEXA.

It’s been an up day as everything rose- treasuries, global equities, gold, oil and cryptocurrencies. “Buy the dip” seems to be a good strategy this year. Markets continue to evaluate the effects of the omicron variant, elevated inflation expectations, and that global central banks may be heading closer to tightening monetary policy. Asian markets followed the U.S. positive close and are trading up this morning. Chinese equities are higher this morning after inflation came in lower than expected, adding to rate cut calls. Asian markets had closed flat to down yesterday with mainland China indices losing half a percent while the Hang Seng Index ended flat. Japan equities lost a percent. Indian and GCC equities have been an exception, with both markets having a positive start to 2022, though yesterday UAE equities fell half a percent. Yesterday was a second day of U.S. equities erasing intraday losses and the S&P 500 was up almost a percent and the Nasdaq Index +1.4%. In Europe, most markets closed higher with Germany leading and Spain lagging. Energy and financial sectors were again in the lead, the former on higher oil prices and the latter on expected high earnings in Q4 and rising yields. Year to date global equities are down a percent with developed markets -1.2% and emerging markets up a percent. Value leads though yesterday growth rallied.

Fed Chair Powell in an appearance before the Senate banking committee said high inflation had taken a “toll” and the central bank would act to prevent it from “becoming entrenched” and the importance of “price stability” to support the labour market. He also reaffirmed that the central bank expects inflation to peak in the middle of the year, suggesting a sharp increase in interest rates may not be necessary. In the longer term he was optimistic the disruption between supply and demand will abate. That stalled
the recent sell-off in Treasuries that had begun last week as minutes from the Fed’s December meeting had signalled a more hawkish tone. The yield on the 10-year US Treasury note fell3 bps to 1.73%, after trading above 1.8% on Monday. The yield on the two-year Treasury note, which closely tracks interest rate expectations, was steady at 0.89%. Earlier in the trading day it briefly rose to 0.94%. Growth sectors i.e., technology rallied as post testimony from Fed Chair Powell in his confirmation hearing, suggested a soft landing as the Central Bank moves to remove its emergency stimulus measures. Much of the recent downside volatility is driven by rising bond yields amid heightened inflation pressures, increasing investor expectations that the Fed and other global central banks may accelerate tightening monetary policies. Expectations are that today’s inflation report will show US consumer prices rose 0.4% in December, and 7% y/y.

Dubai’s PMI rose to a two-and-a-half year high of 55.3 in December, from 54.5 in November. The main drivers were strong growth in new work and business activity, which firms attributed to the relaxation of travel restrictions and Expo 2020 which helped to boost tourism in the final month of 2021. Domestic demand was also strong.

Is the current rally short covering, a relief rally, or potentially a pause in the Value Rotation? The forthcoming earning season will determine the next leg of equity performance and Bond prices look like they are stabilizing having digested Central Bank policy tightening acceleration. At least for now.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
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