



## CIO OFFICE MORNING MARKET WRAP – 12th July, 2022.

As we return from the long weekend and the holy occasion of Eid Al Adha, volatility continues to prevail in the markets. US stocks notched a weekly gain after a strong jobs report alleviated recession fears but cleared the path for the Federal Reserve to keep raising interest rates to fight inflation. S&P 500 ended the week with a 1.9% gain. EM Equities gained 0.9%. The 10-year US Treasury yields jumped by 20 bps last week to close above 3% on Friday. Commodities had one of the worst weeks since March 2020. The Brent crude oil dropped by 4% last week, while Gold fell below \$1,800 for the first time since early February in anticipation of higher Treasury yields. The Change in Non-farm payrolls came in at 372k compared to an earlier estimate of 265k. Markets now anticipate the FED to hike the rate by 75 bps in the July FOMC meeting, followed by 50 bps in September, which would drop to 25 bps in October and December meetings, leading to a cumulative rate hike of 2% by year-end from current levels. This would result in a FED rate of Upper bound of close to 3.75%, which is well into the restrictive zone according to some economists.

Former Japanese Prime Minister Shinzo Abe's shocking assassination spread shockwaves through the international community. "Abenomics," which comprised central bank monetary policy, fiscal stimulus, and structural reforms, has become a playbook for nations to fight slowdowns. Yen promptly sold off to hit a 24-year low breaching the closely watched 137 level. Bank of Japan Governor Haruhiko Kuroda reiterated on Monday that he wouldn't hesitate to add monetary stimulus if needed to boost the stuttering economy. The UK is expected to have a new prime minister on 5th September after Boris Johnson resigned last Thursday following a series of

resignations from his cabinet. As of now, Rishi Sunak leads the field with publicly declared support from 38 backers.

This week started with a complete risk-off tone as steep Fed hikes to fight inflation and subsequent recession fears took hold. Earnings season for corporate America starts this Thursday, with JP Morgan declaring its quarterly results. JPM will be followed by Morgan Stanley, Citigroup, and Wells Fargo. Analysts haven't pared down earnings estimates, while many strategists are not entirely convinced that this is the case. Major equity indices across the world tumbled on Monday. Developed Market equities closed 1.20% down while EM equities were down by 1.83%. Across sectors, consumer discretionary and communication stocks were the worst hit, followed by tech stocks. Twitter Inc. sank as Elon Musk walked away from his \$44 billion deal to buy the company, setting the scene for a legal battle. Brent crude was down by 1.36%, while Gold ended flat at 1,735. The 10-year Treasury yields lost nine bps to close at 2.99%. Bitcoin dropped below 20,000 while Ether traded below 1,100.

This morning Asian markets are trading down, tracking the overnight risk-off tone. Japan is down -1.68%, while Hong Kong stocks traded -1.47% lower. China's domestic stocks have lost -1% since the start of trading today. The country's antitrust watchdog fined companies, including Alibaba and Tencent, for not correctly reporting past transactions. While the fine amounts were not massive, this has soured market sentiments on the names. However, in a piece of good news, China's credit jumped much more than expected last month to the highest on record for June due to a strong rebound in bank lending and record government bond sales as demonstrated by Aggregate financing, a broad measure of credit that reached 5.2 trillion yuan (\$775 billion). S&P 500 and Nasdaq futures are trading down by 0.6% and 0.7% after last night's fall. Treasuries extended gains, taking the US 10-year yield to 2.96%. Brent crude is down 1.4% to trade at \$105.41, while gold trades around \$1,732. Major Cryptocurrencies continue last night's fall, with Bitcoin trading at around \$19,915 and Ether around \$1,083. The Euro edged closer to parity with the dollar, trading at 1.0022 due to the region's energy crisis and acute recession fears.

This week is going to be rich in data. We have the most awaited June US CPI numbers tomorrow at 4:30 pm. The Bloomberg survey estimates the number to be a red hot 8.8%, even higher than the May month figures of 8.6%. This macros data will determine the short-term direction of the markets. If the inflation numbers beat the estimates, the short-term yields could rise, leading to heightened expectations of an even more aggressive FED than what is currently being priced in, which would be negative for the growth stock valuations. We will also see the University of Michigan Sentiments, Retail Sales Advance, MBA Mortgage Applications, Housing Starts, and Empire Manufacturing data. In addition, we have a slew of FED speakers scheduled throughout the week. The markets will be closely following the FED speak. The FED will also release the Beige book tomorrow, which would also indicate the strength of the US economy. Europe seems to be more data light this week, the most important being the Zew Survey Expectations and CPI prints from some member countries. Finally, China will come out with the GDP numbers this Friday, which could confirm a slowdown following the country's strict zero covid policy rules.

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