Global markets had a very positive Wednesday. In Asia, Japan and Hong Kong equities gained over 2%, and China, India and the UAE markets were all up on the day. European equities closed higher, with the Energy sector continuing a recent rally, while Financials and Materials also contributed to the upside move. Growth-related sectors, such as Information Technology extended the day before’s rebound. This morning Asian equities are trading a little down.

Late afternoon saw the release of the much-awaited US inflation numbers. US consumer prices rose 7% in December y/y as estimated, up from an annual rate of 6.8% in November. The rise in December was the sharpest since June 1982. The core rate was up 5.5% y/y. Markets however took the inflation numbers in their stride having been reassured by Fed Chair Powell the day before that he would take all steps
to ensure “price stability” to support the labour market. The yield on the benchmark 10-year Treasury note, hovered around 1.74% largely unchanged. The two-year yield, which closely tracks interest rate expectations, was initially steady at 0.9% but moved up by 2 bps. The S&P 500 continued its rebound as did the tech heavy Nasdaq, recovering from the rough start to 2022. Both ended the day with small gains but lower than where they were at the start of the trading day. Gold and oil prices traded to the upside.

The Treasury yield curve has steepened strikingly to begin the year as the markets assessed the prospect of Fed tightening and the rapid spread of the omicron variant. The steepening was amplified by last week’s hawkish minutes from the Fed's December meeting, which suggested along with accelerated tapering and multiple rate hikes this year, it may begin to reduce its balance sheet sooner than expected. After the first few days of volatility markets have been steady and await earnings releases. Markets like certainty and inflation data has not exceeded estimates and measures are being taken by Central banks to control it. Also, the omicron variant may be less severe, lifting sentiment and helping to counter the hotter-than-expected read on consumer price inflation.

S&P 500 companies are expected to report strong profits for the past quarter even as high inflation, wage pressure, supply chain disruption and the Omicron coronavirus variant cloud the outlook. As earnings season kicks off this week, companies are forecast to deliver yy/y earnings growth of 22%. Stay safe.

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