



## CIO OFFICE MORNING MARKET WRAP – 13<sup>th</sup> April, 2022.

The US March CPI number came out yesterday and showed a year-on-year increase in consumer prices of +8.5%. It was the highest in 40 years, however its core component, which excludes food and energy, was actually lower than many had feared. This core inflation index moderated to the smallest monthly gain since September at +0.3%, leading to a year-on-year increase of +6.5%. Obviously, absolute levels remain stellar and people still need to eat and fill their tanks, but some hopes that inflation could be close to peak triggered a relief in bond markets. The other important news from yesterday was more sinister: Vladimir Putin said peace talks are “at a dead end”, dismissed accusations of war crimes and expressed a willingness to continue military operations. Interest rates fell yesterday with the US 10-year Treasury yield shedding -6 basis points to 2.72% while the drop was more pronounced on shorter durations. The 2 and 5 year yields lost around -10 basis points to close respectively at 2.40% and 2.69%, despite two other Fed officials, including vice-chair Brainard, confirming a fast tightening ahead. Global stocks fell -0.3% on average: their initial rebound on the US CPI did not survive the bad news on the war. The price of Brent crude oil moved up +6.7% to close just above \$105, obviously supported by the prospects of a longer war. Vitol said they will stop trading Russian crude by the end of 2022, but Airbus confirmed it will keep importing Russian titanium which is vital to the aerospace industry.

We held our monthly tactical asset allocation committee yesterday and acknowledged a change in our central scenario, with slowing growth, rising inflation, and an accelerated tightening from central banks, as well as of course a terrible geopolitical backdrop. We thus revised our year-end fair values for major asset classes. To summarize, the US 10-year yield is now close to our updated fair value. Fundamental upside is limited in stocks from developed markets, with the US being the most compelling. Valuations are more attractive in Emerging Markets but we see no short-term catalyst to unlock their value, probably not before DM equities recover. As a result, we have decided to adjust our tactical asset allocation. We materially increase our exposure to safe bonds, mostly DM govies, to come closer to neutrality. This increase is funded by reducing both cash and equities. For the latter, we will go neutral on EM and trim our DM overweight to a modest +1%. We also made a couple of other adjustments to express our preference for EM Debt within fixed income as well as neutrality on High Yield, and an overweight in alternatives which is spread between hedge funds, real estate and gold. We expect volatility to continue in the year of “Low Visibility Ahead”, from the title of our 2022 Outlook, but reiterate our conviction that this will only bring opportunities for long-term investors. Typically, the current level of safe yields doesn’t deserve a massive underweight anymore, especially in a context of slowing growth ahead.

In other news, it was a momentous day for Dubai Financial Markets with DEWA beginning its trading journey. The Dubai blue-chip didn’t disappoint with an initial 20% gain at the opening, before closing 15% higher than its IPO price, to reach a market capitalization of AED 143bn. DEWA is now DFM’s most valuable company, taking the crown from... Emirates NBD. Our bank is extremely proud to have played a major role in this successful operation, together of course with our clients and the Dubai government.

Asian markets are mixed but relatively quiet as we write this morning. Stocks are up +1.7% in Japan and +1.4% in Korea, but Hong-Kong is flat and onshore China modestly down. Treasuries slip with yields re-gaining 1 to 2 basis points across the curve. Oil prices hold yesterday’s gains, while major crypto currencies are up around +2%. Future contracts on Western stock markets are modestly up.

Today we will watch inflation data in the UK and Spain, but the most important news will come from the corporate world: the earnings season kicks off with JP Morgan, Blackrock, Tesco and Infosys among others.

Stay safe.

Chief Investment Office  
Wealth Management, Emirates NBD

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