



CIO OFFICE MORNING MARKET WRAP – 13th June, 2022.

A tumultuous week for all asset classes with only gold and energy prices up for the week. Thursday and Friday's developed markets fall was a combination of a higher than expected CPI print from the US and ECB President Lagarde defining a date for the start of the tightening cycle and the conclusion of asset repurchases. A hawkish stance stating that "If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting". The ECB is raising rates for the first time in 11 years. Global growth downgrades continue as the World Bank cut its global growth forecast to 2.9% and recession talk 18 months down the line picks up pace. Friday saw global stocks fall 1.6% taking the weekly drop to 4.5%. US equities were down 5% for the week with the Eurozone at -6%. Emerging market equities did better down just 0.5% last week with China up and India and the UAE down. The global tech sector fared worse than the broader market as yields rose. The 10-year Treasury yield increased to 3.16% and the gap with the yield of the 2 year narrowed with the curve flattening and the US Dollar was stronger. The Yen is now at 135 against the USD the lowest since 2002. The price of Brent crude oil remains firmly above \$120/bbl with OPEC+ not able to meet the supply gap fully. Cryptos Bitcoin and Ether are down 20% already in June, in line with the broader risk off sentiment.

This morning Asia markets are in the red, from Japan to Hong Kong and China. This follows a very good week for China equities, as the China lockdowns and the tech crackdown eased, the equity market rebounded. Another key driver of the up mood was policy tailwinds with incentives and subsidies to sectors hit by lockdowns, while the Central Bank's looser monetary stance contrasts with aggressive tightening in most parts of the world. The MSCI China bucked last week's global market rout to end the week up 6%. We recently added a small overweight to EM Asia as we think these domestic economies are better positioned to weather global supply chain disruptions. Not completely out of the woods and expect hiccups with lockdowns not over, but green shoots appear as the tech sector is no longer getting a dressing down. The Ant Group IPO revival is still unconfirmed, but the Didi probe looks like its ending. Game approvals have resumed after a year.

This week's Fed meeting is the highlight of the week and the interest-rate hike expected at 50 bps is well factored in, and half-point increases through September expected, with inflation staying well above 8%. Updated economic projections and the dot plot will provide further direction on the future pace of tightening. The BOE meeting is on Thursday and expected to deliver a fifth straight rate hike. Messaging key as officials deliberate whether to accelerate to half-point increases. The SNB also meets that day. The BOJ is forecast to make no moves on Friday.

The US inflation rate in May accelerated to 8.6% from 8.3%, near a four-decade high, keeping pressure on the Fed to stick with large rate hikes. The core print slowed less than forecast to 6%. On a monthly basis, headline prices rose 1%. It seems unlikely we see a material fall in energy and food prices until a solution is reached in Ukraine. Further, summer travel demand is likely to keep energy bid until September. Surveys indicate that consumers are continuing to list inflation as their number one concern and consumer confidence is weakening. Two-thirds of consumers plan to reduce spending over the next 6 months because of inflation, with planned cuts coming from discretionary categories. Though earning downgrades have been minimal from corporates and are not yet affecting next 12 month EPS estimates, US equities have fallen 9 of the last 10 weeks. Almost a bear market with the S&P 500 now 19% below its peak and the Index trading at 17X earnings in line with 10 year average. The US has been quicker to taking its supply chain more domestic and the next leg of equity direction will be dictated by Q2 earnings and guidance.

After Amazon, Tesla is in line for a share split. The bid for Twitter may need to get honoured as Twitter agreed to share data on spam and false accounts with Tesla CEO Elon Musk, ending a standoff in the \$44 billion takeover deal. While companies have so far raised prices of goods, passing on the higher input costs to consumers the trend is now reversing and Target spoke of discounting goods. US Retail Sales due Wednesday, would provide further insight. Stay safe.

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