



## CIO OFFICE MORNING MARKET WRAP – 13th July, 2022.

There is no end to the market angst over inflation. As investors brace for the highest US inflation reading in 41 years due at 4:30 pm local time, markets sold off overnight, anticipating an aggressive FED leading to a recession. Bloomberg economists estimate a headline CPI growth of 8.8%, while core CPI is expected to slow down to 5.7%. As if the real upcoming numbers were not scary enough, a fake release purporting to show US CPI data jolted markets, indicating how sensitive we are to social media in today's era of WhatsApp forwards and Twitter Trends.

Developed Market equities lost 0.7%, while Emerging Market equities lost 1.39% yesterday. The local markets were better oriented, with DFM and Tadawul closing up by roughly 0.64% while ADX closed up by 0.1%. There was a broad-based market sell-off with all the sectors in the red. Brent crude fell a whopping 7.2% to go below \$100 for the first time since mid-April. This was despite OPEC's first oil-market outlook for 2023 suggesting no relief for squeezed consumers, with more crude needed from the group even though most members are already pumping flat out. The organization expects global oil demand growth to exceed the supply increase by 1 million barrels a day next year. Gold was relatively flat at \$1,728. The much-followed 2s10s part of the US Treasury yield curve remained inverted, hitting -12.4 bps intraday, which was the lowest since 2007. The 10-year US Treasury re-opening auction was the weakest in a year.

As a sign of caution, Google plans to slow hiring for the rest of the year in the face of a potential economic recession, Alphabet CEO Sundar Pichai told staff. There is broad indication of a credit crunch coming as a recent S&P report indicated that there were 40 bankruptcy filings in June, up

from 30 in May and the highest number since April 2021. As we prepare for the bank earnings report this week, we should look for clues that the banks are preparing to increase their loan loss reserves.

IMF added fuel to the recession fears by cutting US GDP growth estimates to 2.3% from 2.9% projected a month ago while adding that higher inflation poses a systemic risk to the world. The fund also lowered next year's growth estimate to 1% from 1.7% while predicting the unemployment rate will rise to 4.6% in 2023 and 5.2% in 2024. An interesting nugget of information is the US doesn't follow the typical two-quarters negative growth as a recession. Instead, it is up to the eight-member panel at the National Bureau of Economic Research to declare a US recession based on six-monthly data series, including nonfarm payrolls, personal consumption spending, and industrial production. So, we may see an official declaration of recession much after markets price one.

Emerging Markets continue to struggle as the cycle dynamics don't support them. High inflation and a strong Dollar complicate the challenges. Currently, the DXY is more than 10% higher than its one-year average. While this is not unprecedented in the past, the list of prior episodes includes the 1997 Asian crisis, the popping of the Dot-com bubble (2000), the GFC (2008), and the Euro-zone sovereign crisis beginning (2010). Investors have pulled out roughly \$50 Bn from EM Sovereign debt YTD, the most severe in the last 17 years. About 30% of the emerging markets are at or near distress, according to IMF's managing director Kristalina Georgieva. China's stimulus may not be enough to save the markets as there is a growing belief that the current round of stimulus comes with one foot on the brakes in the shape of the Zero Covid policy. Chinese High Yield Debt has sold off on more lockdown fears while the Chinese tech sector entered correction territory yesterday, dropping 11% from the high in June. The country will release its Trade figures today, confirming a slower export growth and a lower trade balance. On average, the Emerging Market High Yield sovereign bonds trade at distressed levels with a risk premium of 1,000 bps over Treasuries. Sri Lanka is a testament to EM countries' difficulties with the political vacuum dimming prospects for rapid aid from the IMF with no disbursements expected before early 2023.

At the time of writing, Asian markets seem to be well oriented. Japan is up 0.47%, and Hong Kong is +0.72%. Local Chinese markets are up by +0.4% after a tech rebound. S&P 500 futures rose 0.2% while Nasdaq futures have added 0.3%. Brent Crude and Gold are trading flat around yesterday's levels. The euro was at \$1.0035 while the Japanese yen was at 137.15 per dollar, down 0.2%. 10-year US Treasury yields were up one bps to 2.98%. Bitcoin was steady at around \$19,500, while Ether was trading near \$1,050.

We round off today's Daily with some good news finally. A recent update by CBRE indicates that the boom in Dubai residential property shows no signs of abating, with 1H transactions up 33% y/y, a level not reached since the 2009 peak. This is supporting prices which are up 10.9% y/y in 1H22 (villas +19.8%, apartments +9.6%). New project launches continue but not at the same intensity (3,000 units launched YTD vs. +16,000 units in 2021). Also, according to a recent Bloomberg story, Mubadala is in talks with SoftBank Group to acquire asset manager Fortress Investment Group with a valuation of around \$1 Bn.

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