CIO OFFICE MORNING MARKET WRAP – 14th March, 2022. ALSO AVAILABLE ON ALEXA.

Last week was a sea of red for market returns across all asset classes, with the only exception of gold, up +0.9%. Stocks were down -5% in emerging regions and -2% in developed ones. Interest rates were on the rise, reflecting the inevitable inflation shock from the crisis in Ukraine as well as reacting to a more hawkish than expected ECB meeting. The US 10-year Treasury yield closed at 1.99% which compares to 1.95% for the 5-year and 2.35% for the 30-year. All segments of fixed income had negative weekly returns, from -1% for DM high yield to -2.3% for investment grade corporates and -1.9% for emerging markets debt.

The situation in Ukraine doesn’t seem to improve, despite some hopes on Friday when Mr Putin signaled “positive shifts” in talks with Ukraine. In the meantime, Russian missiles hit a Ukrainian military target near the Polish border, i.e. dangerously close to a NATO member country. US officials said that Russia has asked China for military assistance, but without giving details, especially about when and what. This headline comes as US and China will hold their first high-level talks today in Rome. The Biden administration will certainly increase pressure on China to help end the crisis rather than keeping its current relatively neutral position. Meanwhile, the European Union has expressed a clear willingness to reduce its dependency upon natural gas from Russia, materially and quickly, but its ability to do so appears relatively limited in the short-term, as the price impact of a meaningful move would
be dramatic and probably require fiscal support to cushion the shock on consumers purchasing power. Visibility remains extremely low and as the risks of a long conflict rise, a larger than expected inflation shock from commodity prices seem inevitable, ahead of an important week for central banks: the Fed meets this week and should start hiking interest rates. Markets thus remain extremely unstable.

As we write this morning, Asian markets are mixed but dominated by another rout in Chinese technology shares, which are down -8%, as the city of Shenzhen, China’s main tech hub, is now locked down. Apple supplier Foxconn halted operations at its sites there, including one where iPhones are being manufactured. Stocks are down -3% in Hong-Kong and -2% in China’s onshore markets, while Korea is more resilient at -1% and Japan up +0.7%, helped by a weakening yen. Interest rates are rising sharply with the US 10-year adding almost 5 basis points to 2.04%, despite oil prices consolidating: future contracts on the Brent trade just below $110, down -3%. Finally, future contracts on Western stock markets are slightly up while major cryptocurrencies are slightly down.

The Fed meeting starting Tuesday and concluding Wednesday will of course be the highlight of a week packed with monetary policy decisions. The central bank should start hiking interest rates with a +25 basis points increase being the most probable. The institution should update their economic projections and hopefully give some details on a range of topics, from balance-sheet normalization to how the crisis impacts their framework. The PBOC will also meet on Tuesday, and an interest rate cut is not to be excluded there after the country issued an ambitious +5.5% GDP growth target for 2022. The Bank of England could raise interest rates on Thursday while the Bank of Japan will probably hold on Friday. Apart from central banks, we will have a close look at retail sales in China tomorrow and in the US on Wednesday. With regards to the latter, we hope that excess savings will cushion the inflation shock and still lean towards a scenario where global growth is dented rather than derailed. In any cases, volatility should remain extreme this week.

Stay safe.

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