



CIO OFFICE MORNING MARKET WRAP – 14th April, 2022.

Wednesday was not bad for most asset classes. Global stocks rose +0.5% on average in developed markets and were close to flat in emerging ones. Interest rates had a volatile session, starting the day higher but ending it lower. The 5-year Treasury yield lost -3 basis points to 2.66% while the 10-year closed -2 basis points lower at 2.70%. Oil prices continued to strongly rebound from last week's dip: the price of Brent crude oil added +4% to close just below \$109. This happened despite US crude stockpiles showing a very large weekly increase. Finally, the trade weighted dollar added +0.1%, especially versus the yen and the euro.

Inflation is everywhere. Factory gate prices in the US, the PPI, surprised to the upside in March with a record +1.4% month-on-month increase, and an impressive +11.2% year-on-year change. The rise in CPI also exceeded expectations in the UK and in India, both printing a 12-month gain of +7%. No surprise then that central banks continue to react globally: the Bank of Canada and the Reserve Bank of New Zealand both hiked interest rates by half a point yesterday and signalled more to come. The ECB will meet today, and the outcome may be less uneventful than it usually is. While no actual decision is expected, Mrs Lagarde could give guidance on the perspectives for the second half of the year. There's only one direction of course, but there are limits to the absolute levels of rate that the highly indebted region can bear.

A moment of truth on the economic side of the war in Ukraine may be approaching: the EU said that paying imports of Russian gas with rubles would be a violation of sanctions. On Russia's side, President Putin threatened to simply halt supply if payments are not made in the local currency. A worse-case scenario is not to be excluded: without Russian gas, there is a high probability of a recession hitting Europe. Meanwhile, Joe Biden announced additional military aid for Ukraine, with a \$800 million package which includes helicopters and artillery. It looks like the world is preparing for a long conflict, which means a fluid and unstable situation with many consequences. Food inflation, typically, is becoming increasingly alarming especially for the developing world.

As we write, Asian markets are well oriented this morning. Stocks are in the green in Japan, helped by the weaker yen, as well as in China and Hong-Kong. Beijing clearly indicated that more monetary support is on the way – potentially tomorrow with a rate cut and a reduction in the reserve requirement ratio. However, China also confirmed their radical zero-COVID policy which practically locks down major economic centers, starting with Shanghai. March trade data already reflected the loss of momentum, with a -5.8% month-on-month contraction. In Tokyo trading, US Treasuries are on the rise with the 10-year losing -2 basis points to 2.67%. We added to bonds in our tactical asset allocation yesterday while reducing cash and trimming equities. Oil prices are stable, crypto currencies are slightly up and so are future contracts on Western stock indices.

Today will see the ECB policy meeting as well as US retail sales. The earnings season will continue with major US banks in particular: Goldman, Citi and Morgan Stanley are expected to do better than JP Morgan which disappointed yesterday on their investment banking revenues. It's useful to keep in mind that many Western markets, including the US, will be closed tomorrow for Good Friday.

Stay safe.

Chief Investment Office
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