



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

A broad sell off across asset classes and global equities fell -3.6%, US equities -4%, the Euro area -2.4% and Japanese equities were -3.0% yesterday. Emerging market equities were -3.6%, with the UAE, India and China all trading down. Asia equities this morning are adding to yesterday's losses. All global sectors fell yesterday including energy which is so far the only sector in the green this year. The only regions up YTD are LATAM and the UAE and KSA all energy producers but nothing escaped yesterday's global market rout. Year to date global equities are -20%, with EM equities the better performers but also in deep negative territory at -16%.

The 10-year US Treasury yield increased 20bp to 3.36% and the 2 year yield is at 3.38%. Concerns about a possible recession amid expectations of more aggressive Fed monetary policy, have been exacerbated by the inversion of the 10-year and 2-year Treasury yield spread, often viewed as a recession signal. Gold is a little lower at \$1,825. The price of Brent crude oil up 0.2% to \$122.27/bbl. The trade-weighted dollar moved up a percent, the euro fell 0.1% and the yen strengthened 0.5%. Risk off the table and cryptocurrencies have lost 30 to 40% of their value this month with a 5% down move this morning. Cryptos fell after crypto lender Celsius blocked redemptions as did Binance citing "extreme market conditions". Questions arise around the infrastructure underpinning the digital asset market.

Inflation and recession fears in the face of rising interest rates have the S&P 500 in bear-market territory and bond yields up to a decade high. Adding to Thursday and Friday falls, the S&P 500 fell -3.9% to 3,750, and the Nasdaq -4.7% to 10,809 yesterday. The S&P 500 has fallen more than 2% in 3 consecutive sessions. The equity sell off was set off by unexpectedly high US inflation figures from Friday, with consumer prices +8.6% y/y in May. Inflation has been a combination of fiscal stimulus fuelled high savings driven demand, Russia's invasion of Ukraine raising fuel and food costs and supply chain constraints leading to higher input costs for manufacturers. Added to this is a short supply of labour adding to wage pressure.

We expect markets to continue to be choppy this summer amid the overabundance of headwinds and brief rallies may continue, but aggressive Fed policy, the turning of the liquidity tide, and slower economic growth will likely keep pressure on markets. It's not about valuations being low or corporate balance sheets strong, but sentiment around the effect of tightening and tapering. Whilst we are constructive on returns from asset classes over time, we wrote in our market outlook weekly yesterday on our positioning outlook, "As always this is not a call to go "all in" but aims at improving medium-term expected return within a risk-controlled, diversified portfolio."

Central bank meetings are in focus this week. Developed market central banks were slow to start tightening policy and still remain some distance from neutral stances; and now the market is pricing in increasing front-loading of policy moves - adding to rising downside growth concerns. A number of EM central banks, are closer to the end of their hiking cycles or like China loosening policy to stimulate the economy. With inflation not cooling, consensus estimates are that today's Fed meeting may end with a 75 bps rate increase, till last week a 50 bps was seen more likely. The Bank of England and Bank of Japan are also set to meet regarding monetary policy. The BOE is expected to opt for a milder increase of 25 bps in the midst of slowing economic activity, as the U.K. GDP report showed the economy slowed by 0.3% m/m in April. A small positive on inflation was Indian CPI lower than expected y/y to 7.04%.

Whilst we await Q2 Earnings we continue to look at corporate guidance. Elon Musk said Tesla has had a "very tough quarter" in an internal memo, citing supply and production challenges in China. Today we get key readings on CPI from Germany and Sweden and US wholesale prices. Stay safe.

Stay safe.

Chief Investment Office
Wealth Management,
Emirates NBD.

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