



## **CIO OFFICE MORNING MARKET WRAP – 14th December, 2021. ALSO AVAILABLE ON ALEXA.**

Most Asian stocks are slipping this morning and caution prevailed in global markets yesterday ahead of a flurry of central bank meetings, with the Fed expected to deliver a hawkish message of accelerated tapering on Wednesday. The Nasdaq underperformed alongside more speculative-driven investor darlings, the energy and consumer discretionary sectors led declines, while bitcoin held close to three-month lows. Longer-dated yields dropped, the US dollar edged higher and crude oil slipped.

Consensus for 2022 seems to agree that gains will be more subdued and market corrections should be moderate. Stocks can indeed slow down their pace of ascent next year amidst growing headwinds, but on the magnitude of the interim downside we would be more agnostic. After all, US stocks have not seen a deeper retracement since the Covid crisis and ruling out one when QE is being wound down looks way too optimistic. In the shorter-term, the Fed might refrain from providing a negative surprise right from the start and at the same time try to press on the breaks as lightly as possible, while carefully managing expectations. Powell might keep messages related to additional tightening on top of the tapering for a later time. Should this be the case, undoubtedly a big if, markets would continue their bullish trend into the new year and gold could rally as well.

Cryptocurrencies have retreated too amidst more risk-off leaning markets. In spite of all the hype about bitcoin being a 'hedge', the digital currency has been falling before and after the latest US inflation release printing at an almost forty-year high. Studying data reveals that bitcoin is actually pro-cyclical, following market sentiment, and indeed its three-month correlation with the S&P 500 is at its highest level this year. This being the case, cryptocurrencies will be one more liquidity-driven asset class which could feel the strong pull towards mean reversion as the Fed withdraws stimulus next year. Any kind of highly speculative investment should be considered with caution when there is reason to believe that market liquidity can deteriorate significantly.

The US dollar rose against each of the G10 currencies yesterday as policy divergence between the Fed and other central banks is set to continue. On Thursday the ECB is expected to signal that it will continue buying bonds and leave interest rates unchanged next year, despite an inflation rate at 4.9%, the highest since records began in 1997. At the same time, new restrictions related to the latest virus variant and an incomplete recovery give investors the impression of an economy on a less solid footing. In the UK, last week's government decision to impose new restrictions may mean that the BOE could hold off on its decision to hike rates, following inflation at its highest rate in a decade. In China last week the central injected more liquidity in the system to avert a sharper slowdown and more economists are convinced that policy rate cuts will follow in 2022. Speculative positioning continues to be very bullish the US dollar, which seems set to push higher, unless the Fed triggers some profit taking by holds back the more hawkish tones for a later time.

Please take notice that this week sees the last Daily Note of the year, which will be then resumed in January 2022.

Stay safe.

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