



## **CIO OFFICE MORNING MARKET WRAP – 15th February, 2022. ALSO AVAILABLE ON ALEXA.**

The situation in Ukraine, combined with prospects for faster tightening from Western central banks, continued to weigh on markets on Monday. Global stocks fell -1.3% on average across developed and emerging countries, with the US closing on a more modest -0.4% retreat. Interest rates were higher across maturities. The 10-year Treasury yield added 5 basis points to close at 1.99%, which is just below the 2% mark from which we consider reducing our underweight in DM government bonds. The 5- and 30-years maturities were respectively up 6 basis points to 1.91% and 5 basis points to 2.29%. Geopolitical tensions support both gold, steady at \$1870, and of course oil, with the price of Brent crude rising +2.2% to \$96.5. The dollar continues to be sought after, adding 0.3% versus its trade-weighted counterparts, especially the euro and the yen.

The standoff between NATO and Russia around Ukraine remains tense, even if yesterday did not bring additional escalation. Russia confirmed their openness to maintain diplomatic talks, while reaffirming that they never had any intention to invade. Markets are nervous. The President of Ukraine, in a video posted on Facebook, made a joke predicting an attack from Russia this Wednesday, which immediately sent markets tumbling – before his office had to confirm it was a joke. Indeed, it is interesting to see that the West seems much more convinced about an imminent invasion than Ukraine itself. Russian diplomacy is also active on the Iranian

nuclear deal negotiations. Senior EU diplomat Josep Borrell said that a deal is actually in sight. If confirmed, this could provide some relief to oil prices, even if many analysts are revising their forecast higher, with several of them seeing 3 digits in the coming months. With the WTI close to \$95, crude output in the US Permian Basin reached a record high in January since data exist from 2007. One could remember that President Biden had a harsh stance against shale oil... During his electoral campaign. Meanwhile, two Fed officials shared their views on the policy outlook. James Bullard is hawkish, supporting fast hikes to reach 100 basis points, from 0 currently, by the middle of the year. Thomas Barkin was more dovish.

As we write this morning, markets are mixed in Asia. China's onshore markets are up +1% as the central bank injected a net 100 billion yuan through their medium-term lending facility. China definitely has its own cycle: after having avoided recession in 2020 and seen a deceleration last year, tomorrow's CPI should confirm the lowest rise in consumer prices among large economies, around or below 1.5%. As a result, while the West is withdrawing policy support, China is stepping up on both fiscal and monetary stimulus. Elsewhere, stocks are marginally down in Japan, where the annualized GDP was released below expectations at +5.4% annualized. Stocks in Korea and Hong-Kong are also modestly lower. Interest rates are down one basis point across maturities. Oil prices fluctuate around \$96 for the Brent, and crypto assets are rebounding.

This is the year of low visibility, and uncertainty is everywhere. With regards to economic growth, we tend to believe that the coming months should be positive, with the help of a fading omicron wave, but that the longer-term picture should be less spectacular. This is why we consider adding to safe bonds, should the 10-year yield exceed 2%. We are also considering adding to developed market stocks, for a simple reason: with falling prices and rising earnings, valuations are more attractive than at the end of last year. We have significant amounts of cash in our allocations, that can be put at work when the price is right.

Today we will look at the Q4 GDP for the Eurozone, which should be around +4.6% annualized, as well as the US Producer Price Index and the Empire manufacturing index. Wednesday may have more potential to move markets, with the Fed minutes being released, as well as inflation numbers for China.

Stay safe.

**MAURICE GRAVIER**  
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