



CIO OFFICE MORNING MARKET WRAP – 15th June, 2022.

All eyes on the Fed today for rate direction as the higher rates affect not only the US economy, but emerging markets too, as a stronger USD affects inflows. Also closely watched is the equilibrium between rising rates and slowing growth and the increasing probability of a recession in 2023. Global stocks fell -0.6%, US -0.4% and the Euro area -1.2% yesterday. U.S. equities fluctuated between +/- half a percent with an attempt to bounce off Monday's sharp drawdown which was a reaction to the consumer price inflation report from last week. In Asia, Japanese equities were -1.3%. Stocks in emerging markets close to flat, at +0.1% with China having an up day and India slightly down. The Nasdaq Golden Index of China stocks listed in the US made a complete comeback from day before's losses gaining 7%. Asia equities this morning have China up a percent while Japan continues yesterday's sell off. The UAE saw small gains. The price of Brent oil moved down 1.0% to \$120.99/bbl. The trade-weighted dollar moved up 0.2% with the euro +0.1% and the yen -0.3%. Gold spot price fell to \$1,810. Cryptos continue their losing streak.

The 10-year Treasury yield increased 11bp to 3.47% and the 2 year yield up 15 bps to 3.42%. The Treasury yield curve continues to flatten with the spread between yields on 2-year and 10-year notes close to inverting after briefly doing so day before as yields rose on increased expectations that the Fed may be forced to get more aggressive with its

monetary policy tightening. Today's monetary policy decision from the Fed with increased expectations of a 75 bps hike, will be followed tomorrow by the the Bank of England and Bank of Japan policy outlooks later this week. estimate for the neutral level of interest rates that neither stimulates nor slows economic growth are rising to over 3%. May wholesale price inflation in the US, was mostly in line with expectations on a headline level, had core producer prices came in a bit cooler than expected but both remained elevated. Other data had the small business optimism index lower for last month. The National Federation of Independent Business (NFIB) said, "Inflation continues to outpace compensation which has reduced real incomes across the nation." On similar lines, German consumer price inflation came in at a record high and India's wholesale price inflation for May accelerated more than expected.

Major equity indexes are down anywhere from 15 to 20% relative to their peaks early Jan to late last year. Debt securities have also lost considerable value, down over 10% far this year. A 'bear market', the term only has significance in defining a 20% drop from a peak, as for markets the absolute gain or loss is less important than the valuation multiple or future earnings outlook. The US has all 3 equity indices below 20% year to date with the Nasdaq at -30% and the MSCI Europe in dollar terms is also below -20%. Japan equities are at -19%, India and China are at -15% year to date. The MSCI UAE is +2%, from being up at 20% at one time. Valuations are well below 10-year averages at 16.3X forward earnings for the S&P 500 and 11.2X for EM. Yet the E of the P/E is now being questioned because of economic growth slows then so will earnings.

The fall across bond and equity markets has led to a contraction in financial wealth. This will affect consumer spending and rising inflation with higher gasoline, rentals and food prices raises concerns over a sharper 2H growth slowdown. There has been approximately a \$5 trillion decline in household wealth in the US, since the beginning of the year and over 200 bps increase in the 30-year fixed mortgage rates (though existing mortgages are largely locked in for 5 years). While equity market drawdowns of 20% have historically been contiguous with Fed easing cycles, the current low level of rates makes a dovish policy unlikely.

Coinbase to cut almost a fifth of staff as the crypto sell off takes its toll on trading volumes and crypto lender Celsius hiring attorneys to advise on solutions for its mounting financial problems. Today we get PPI from Switzerland, CPI from France, as well as trade figures and industrial production from the Eurozone.

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