



CIO OFFICE MORNING MARKET WRAP – 17th January, 2022. ALSO AVAILABLE ON ALEXA.

The first week of 2022 was a sea of red across asset classes. The second one was more nuanced, but still showed some level of confusion, so far in line with the theme of our 2022 global outlook: “low visibility ahead”.

The key data of last week was the US Consumer Price Index for December. The 12-month increase came out bang in line with forecast at +7.0%. All media repeated that such a level had not been seen since 1982, which is true, but more importantly, markets had correctly anticipated and weren't shocked. US sovereign yields actually moved lower on the news. The levels of US Treasury yields on 5, 10, and 30-year maturities are now respectively 1.56%, 1.78% and 2.12%. This helped the fixed income asset class, as well as gold last week. With regards to equities, stocks lost -0.3% in developed markets but gained +2.5% in emerging ones, with the GCC continuing to outperform. The price of oil of course helped, with the Brent crude adding +5.4% last week alone and already +11% year-to-date, now just above \$86. Social unrest in Kazakhstan as well as outages in Libya are among the factors supporting prices, and it appears that some OPEC+ members may be struggling to meet their output targets. It's a matter of supply rather than demand, as in the short-term, the momentum of global growth is clearly slowing under the influence of omicron.

High inflation, policy normalization, and short-term economic challenges do not bode well with elevated valuations and optimistic positioning. Having said that, the resilience of bond markets is impressive and the very beginning of the Q4 earnings season doesn't look bad. Earnings forecasts could be exceeded again in Q4. These opposite forces explain the current state of confusion which we think may be our

daily reality all year long – with most probably opportunities to tactically adjust portfolios down the road, especially as we believe that the big picture is reasonably constructive in net. Having said that, bond yield direction is and will remain a crucial driver for equity returns as well as for sector leadership, as equity valuations are only accessible when compared to interest rates. All eyes are on the Fed, and if chairman Powell confirmed the hawkish turn in his recent comments, he didn't bring more details on implementation. We will have to wait until the next FOMC meeting on January 26th for hopefully more clarity.

It is interesting to see that emerging markets, where both valuation and positioning are much more reasonable, currently outperform. The dynamic between inflation and central banks is also quite different, with China being the perfect example: both CPI and PPI annual inflation decelerated in December, to +1.5% and +10.3% year-on-year respectively. Earlier this morning, the People's Bank of China surprised markets by cutting two key policy interest rates. This monetary easing is a full contract with the west, but it is welcome to support growth. As per just released official numbers, China's GDP added +4% in Q4 compared to a year ago, which beats the median forecast of +3.3% but confirms a deceleration from the previous quarter's +4.9%. Retail sales in December were a clear disappointment, growing only by +1.7% year on year while the consensus was expecting +3.8%. The good news is that authorities are paying attention and taking action.

Staying in Asia, stocks are mixed in this morning's session as we write. Domestic Chinese markets are well oriented, reacting to the rate cut, and so is Japan, but Hong-Kong and Korea are in the red. Future contracts are modestly up for oil and gold, and slightly down for Western stock markets. There is no notable move in interest rates.

The week ahead will be dominated by corporate profits, with more quarterly earnings, including US banks or Netflix. Economic data will include the US Empire manufacturing and inflation from Eurozone and the UK, The Bank of Japan will hold its monthly meeting on Tuesday.

Finally, our 2022 Global Investment Outlook should be presented through a webinar on February 9th, and we would love to have you, please save the date if you are interested in our views and advices for a year of low visibility.

Stay safe.

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