



CIO OFFICE MORNING MARKET WRAP – Friday 17th June, 2022.

Wednesday's rally was short lived as growth scare sank cyclical assets yesterday. Stocks fell -1.8% on average in developed markets, with the US tumbling -3.5%, followed by Europe retreating -2.5%. Safe bonds were sought after in a typical "risk-off" pattern. Interest rates fell across the curve, with the 10-year Treasury yield closing -9 basis points lower at 3.2%. The price of Brent crude oil was however in the green, helped by better prospects in China, adding +1.1% to close just below \$120. The dollar moved down, -0.4% lower versus its trade-weighted counterparts.

The concern can be summarized in one word: stagflation. Western central banks, led by the Fed, are acting aggressively against inflation, which directly affects growth and drains liquidity, unnerving markets. Yesterday's data released in the US already shows some level of softness: the Philly Fed survey declined more than expected, due to weakness in the cyclical new orders component, but not in employment. May housing starts and permits were also lower than expected. After the Fed, the ECB, the BoE, the Swiss National Bank shocked market participants yesterday with a surprise 50 basis points hike, prompting one of the biggest rally in years for the Swiss franc especially against the Euro but also against the dollar. The usually placid central bank added that more tightening may be needed and said it is prepared to sell

foreign currency and even potentially some of their (immense) equity holdings. Pressure is now significant on the Bank of Japan, which will meet today – we would however be surprised to see a hawkish shift there.

Let's face it, the glass looks very much half-empty but again, extreme volatility should not come as a surprise this year, until markets have credible visibility on an inflection in central banks policies. China, the only large economy where inflation doesn't hit and central bank doesn't tighten, is the green exception in Asian markets this morning. Stocks are up +0.8% in both onshore markets and Hong-Kong. It is an exception: the Nikkei is down -2.2% and Korea -1.5% as we write. Interest rates are modestly firmer in Tokyo trading with the US 10-year at 3.25%. There is no notable change in oil and gold prices, and major crypto currencies are digesting another difficult night. Bitcoin trades at 20,700 and ether at 1,093. Future contracts on Western stock markets are modestly in the green.

Today we will follow the Bank of Japan's policy meeting and look at the Euro-area final CPI number for May, as well as at the US conference board leading index and industrial production. Stay safe.

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