



CIO OFFICE MORNING MARKET WRAP – 18th April, 2022.

Equities sold off broadly last week, between 1 – 2% across most regions, with technology a little worse off. GCC equities (Dubai and KSA) were among the few with a positive week. DEWA's successful listing and pop on trading cites well for future issuance. Income/ high dividend payers remain attractive in an inflationary regime. Barring commodity heavy regions/ indices/ sectors i.e. the GCC/ LATAM/ FTSE / energy/ material or domestically focused economies i.e. India, all other regional/ sector equity indices are negative year to date. Most Asian markets and European markets are closed today for Easter Monday.

US Treasuries closed the week lower with the 10-year yield at 2.83% but the gap with the 2 year increasing and no immediate signs of any inversion or recession with economic data indicative of slowing but not negative growth. The 2–10-year curve has steepened somewhat. The real 10-year yield is heading up, towards being positive and this could be considered a healthy sign for any economy. However, headline inflation is still enough that the Fed raises rates by 50bps at its next meeting. Fed speak remains hawkish as it looks to embark on the steepest hiking cycle since the '90s. The IMF looks on track to lower global economic growth projections. Gold rose to \$1978 and oil continued to add to inflationary pressures up 10% on the week with Brent at \$111 a barrel as European officials drafted a phased import ban on Russian oil. Markets are a mix of risk on and risk off, but inflation leading the market narrative. U.S. consumer prices increased by 8.5% in March, the largest y/y increase since 1981. Producer prices increased by 11.2% in March, the largest y/y increase on record. War,

inflation, the virus and monetary tightening are increasing uncertainty for markets. The contrast between the pick-up in the services sector and financial markets is stark. We see packed airports and restaurants despite rising prices. Travel is now only about 15- 20% below pre pandemic levels. However, the University of Michigan Consumer Sentiment Index and Small business optimism in the US are at depths that have seldom been seen in the last 40+ years. There are small signs of inflation peaking with declines in the number of container ships backed up at US ports.

This morning China domestic China equities are trading down a percent. They have been range bound recently. China's GDP rose 4.8% y/y in Q1 compared to 4% in Q4 21. The government has a 5.5% target for 2022. Retail sales for March fell by 3.5% y/y, the first contraction since March '20 affected by slowing demand as 45 cities accountable for 40% of the GDP remain in lockdown as per estimates. Industrial production numbers were better with a 5%/y/y growth in March. The People's Bank of China remains cognizant of growth but on Friday refrained from cutting interest rates. They are taking a cautious approach with monetary easing despite the current Covid outbreak taking a toll on the economy. They however reduced the reserve requirement ratio for most banks by 25 bps and dropped it by 50 bps for smaller lenders.

Financial firms in the S&P 500 have led the Q1 earnings season kick-off, with 10 out of 11 banks in the S&P 500 beating estimates but growth lower from the market fallout of the Russia Ukraine conflict. Another busy week for earnings, reports from consumer discretionary (Tesla) and communication services (Netflix) will be in focus. Margins for the two sectors are expected to have narrowed most the last quarter. Many U.S. companies are raising prices to offset higher costs, as the S&P 500 is projected to report revenue growth above 10% for Q1, double that of estimated earnings growth. In the Q4 2021 earnings season, 356 S&P 500 companies cited "inflation" on earnings calls, the highest number in the last 10 years, a trend continuing into Q1 this year. Higher costs are having a negative impact on net profit margins. As per Factset consensus analysts estimate net profit margins for the S&P 500 for Q1 2022 at 12.1% though estimates are higher for Q2, Q3 and Q4 2022 at 12.7%, 13.1%, and 12.8%, respectively.

Elon Musk stays in the headlines after controversial comments about the SEC in his recent TED talk. Twitter adopted the poison pill to shield it from hostile acquisition bids and to counter Musk's offer to take the company private and make it an upholder of free speech. The board set up a shareholder rights plan, exercisable if a party acquires 15% of the stock without prior approval, lasting for one year.

This week we see: Tuesday: U.S. housing starts; Indonesia rate decision, Wednesday: U.S. Fed Beige Book, existing home sales; Eurozone industrial output, Thursday: U.S. initial jobless claims, Philly Fed factory survey; Eurozone CPI; Friday: U.K. retail sales; Japan core CPI.

Stay safe.

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