



## CIO OFFICE MORNING MARKET WRAP – 18th May, 2022.

Risk appetite was back on Tuesday, with global stocks rising +1.3% on average in developed markets, led by a +2.2% gain in the US. Emerging equities added +1% on net. By contrast, bonds sold-off after hawkish comments from Fed chair Powell, in a bear flattening pattern across the curve. The 10-year Treasury yield added +11 basis points to 2.99%, the 5-year increased +14 basis points to 2.97% and the 30-year closed +9 basis points higher at 3.19%. Meanwhile, the price of Brent crude oil closed -2.5% lower at \$111 and the trade-weighted dollar was -0.7% weaker.

Economic data released yesterday confirmed a strong US activity in April. Manufacturing output grew by +0.8% month-on-month, beating expectations, lifted by a 3.9% jump in production of vehicles and parts. Retail sales were also very robust, with a +0.9% sequential monthly gain in April and a material positive revision of March number from +0.5% to +1.4%. In the Euro-area, GDP growth for the first quarter came out better than expected at +5.1% year-on-year, and employment data confirmed a strong labor market. The unemployment rate in March, at 6.8%, is a record-low since the founding of common area. Economic resilience -if not outright strength- in the West certainly helped investors' sentiment, but also confirmed a tough tightening ahead. Speaking at a live event, Fed chairman Powell made some of its most hawkish

comments so far. In essence, he said that the US central bank won't hesitate to raise rates past neutral, i.e. implementing a restrictive policy to fight inflation, if needed. "What we need to see is inflation coming down in a clear and convincing way, and we're going to keep pushing until we see that". His comments suggest that 50-basis points hikes are the new norm for the coming meetings until inflation weakens, which means that there might be more than two of them in the coming months. Chicago Fed President Evans also spoke and said he expects the Fed to slow the pace to 25 basis-point increments later this year. Bottom-line, inflation is the sole priority of the central bank, even if fighting it comes at a cost for growth, employment, and financial markets. As Powell said yesterday, "there could be some pain involved". Pain is also involved in the explicit intention from the Biden administration to fully block any ability for Russia to pay US bondholders, in a move aiming at forcing the country to default. The US is also working on a military aid package for India. Meanwhile in Asia, GDP growth for the first quarter was slightly better than forecast in Japan, but China continues to be a concern. Home prices fell for an eight month despite measures to support the real-estate sector, and on the Covid front, cases rose again in both Beijing and Shanghai.

As we write this morning, Asian markets are mixed. The Nikkei gains +0.7% in sympathy with yesterday's risk-on episode, but stocks are down -0.7% for both Hong-Kong and China's onshore equity indices. Korea is in between, adding +0.2%. Interest rates are marginally lower, receding by -1 to -2 basis points across the curve, oil prices are modestly higher around \$112 for the Brent. Future contracts on Western stock markets, gold and cryptocurrencies are stable.

Today we will look at inflation data in Europe: the UK CPI is expected to print an eye-watering +9.1% year-on-year increase in April, while the forecast for the Euro-area is +7.5%. The G-7 finance ministers and central bankers will meet in Germany.

Stay safe.

Chief Investment Office  
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