



## CIO OFFICE MORNING MARKET WRAP – 19th January, 2022. ALSO AVAILABLE ON ALEXA.

Global markets are in the process of repricing their monetary policy expectations. It hurts defensive assets directly, as well as cyclical assets indirectly through valuation multiples and of course, sentiment. This also happens at a time when omicron is taking a toll on mobility and activity, and as the just starting earnings season is facing tough basis for comparison.

Tuesday's session was thus another broadly negative one. Global stocks fell -1% on average across regions, with the US closing down -1.8% for the S&P500 and -2.6% for the technology-rich Nasdaq. The catalyst has to be found in interest rates, as always so far in 2022. The 10-year Treasury yield added 9 basis points to 1.87%, while the 5-year gained 10 basis points to 1.66% and the 30-year 7 basis points to 2.19%. This is a bear flattening pattern, driven by perspectives of more hikes than initially anticipated. Our own team of economists from ENBD Research also adjusted their forecast yesterday to 4 hikes from the Fed in 2022, from 3 before. There is however no respite on energy: the price of Brent crude oil continued to climb, moving up +1.2% to \$87.5, as an important pipeline between Iraq and Turkey was hit by an explosion yesterday. Gold is -a bit surprisingly- steady at \$1812, despite the dollar being stronger. The trade-weighted greenback gained +0.2%, especially against the euro and the yen.

In corporate news, Microsoft announced that it will buy gaming blue chip Activision Blizzard for a whopping \$69 billion, the largest ever acquisition price tag in the sector. Activision's key franchise is the best-selling first-person shooting game Call of Duty. Massive online multi-player capacity and sophisticated 3D environments: of course, Microsoft, like other tech giants, is getting ready for the

metaverse. In other corporate news, shares of Goldman Sachs tumbled as their Q4 trading revenues missed estimates, while their costs, especially compensation, jumped 33%. The Wall Street icon is sometimes treating their employees better than their shareholders (even if actually many are both). Goldman shares were down -8%, Microsoft -2.5% and Activision up +20%; all 3 are part of our recommended list of stocks, diversification is definitely a virtue. In other news, several airlines including Emirates and Japan Airlines suspended flights to some US cities from Miami to Chicago on concerns over 5G interference, after a technical warning from Boeing. US telecom operators just agreed to delay switching on their 5G towers near airports. Staying in the US, the Biden administration announced it considers tougher rules for mergers and acquisitions to avoid excessive consolidation, empowering their antitrust regulators.

As we write this morning, most Asian stocks are in the red, with Hong-Kong being the exception, up +0.2% with a rally in property stocks, after China's central bank confirmed a clear divergence with the West by pledging to use more monetary policy tools to support the economy and explicitly ease credit stress. Elsewhere, the Nikkei is down -1.8%, while Korea and China's onshore indices are down -0.6%. Interest rates hold their gains from yesterday and oil continues to grind higher. Major crypto currencies confirm their sensitivity to overall risk appetite so far, with a poor start to 2022. Year-to-date, bitcoin is down -9% and Ethereum -15%.

So it's beginning to look like a global, multi-asset selloff. Let's say it again: our global investment outlook is titled "low visibility ahead", and volatility should not come as a surprise. It is actually not a bad news to see excessively positive sentiment and positioning continuing to normalize, and to reflect more realistic policy assumptions. As long as growth and employment are the drivers behind monetary normalization, it is not a fundamental headwind. Let's take a step back: companies and households can stomach short term interest rates at 1%, can't they? The good news for investors is that as valuations are progressively getting more reasonable, opportunities to enhance future returns will arise. Including in safe bonds. And seeing cash becoming again a yield-generating, risk-free asset class is also no bad news at all.

There is not major potentially market moving economic data being released today, but the earnings season will accelerate with Bank of America and Morgan Stanley in particular, as well as P&G or Infotech.

Stay safe.

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