



## CIO OFFICE MORNING MARKET WRAP – 19th July, 2022.

Trading in the Asian markets remains pretty subdued after Wall Street's underwhelming session. Yesterday started with a risk-on tone across asset classes after much doom and gloom, as traders scaled back bets of a 100 basis point hike by the Fed at the forthcoming July meeting, but it all fizzled out and a larger than 1% gain was reversed following Apple's plans to slow hiring. US equities lost 0.8%, the 10-year treasury yield failed to hold above 3%, but crude oil jumped more than 4% while the US dollar lost ground. Bitcoin, often pre-empting equity swings, was leading the advance to eventually reverse an over 7% gain and close at less than 3% up. Although oversold levels and positioning are pretty extreme, a more substantial rebound should turn out to be another false start as more macro bad news could be ahead while the Fed keeps on pushing to tame inflation.

Apple is looking to curb hiring in some divisions and rein in spending plans next year, joining other Silicon Valley stalwarts like Google, Amazon and Microsoft, in a sign that companies are concerned about future growth. Apple managed to weather past economic turmoil better than many peers, so the cautious tone will send jitters across markets preparing for the tech reporting season that will be in full swing next week. IBM surprised to the upside yesterday both on earnings and revenue but was not rewarded and closed down more than 1% to slide more than 4% after hours. Although the chief executive Krishna said he continues to expect "revenue growth at the high-end of our mid-single-digit model", the CFO warned about the effects of a strengthening dollar. Banks have continued to report, with Goldman Sachs and

Bank of America in the spotlight. Goldman Sachs reported a slump in profit, -48%, above expectations helped by strength in fixed income trading. But the CFO said that the bank will slow “hiring velocity” amid a “challenging operating environment”. The decline in net income for Bank of America was -34%, with a familiar pattern shown by competitors, as strong demand for loans limited the hit from the investment banking business. Chipmakers jumped during the session on the expectation of a package of subsidies expected to be voted today in the Senate aimed at benefitting semiconductor manufacturers to shore up competition against China. The CHIPS Act would be great news for Intel, Micron and Texas Instruments.

Considering the start of the decade marked by unusually high volatility, changing inflationary trends and a war close to European territory, it is timely that Bloomberg asked three market visionaries about the risks they see in the next 10 years. The billionaire and founder of the cryptocurrency exchange FTX, Bankman-Fried, mentioned pandemics, and here we are at the mercy of nature and binary events, while more interestingly both ex Goldman Sachs strategist Abby Cohen and billionaire Ken Moelis, whose investment bank advises the world’s largest companies, cited different flavors of deglobalisation. According to Abbey Cohen it is the curbing of immigration that is going to be the end of the American dream, a message Biden must be happy to sweep under the carpet at the forthcoming midterm elections. Less immigration means less talent and slower labor force growth. She did not mention it explicitly, but deglobalisation with lower labor mobility is not helping at all in this sense. In Ken Moelis’ view deglobalisation will cause a race of the major nations to ensure energy and food security via internal production as much as possible. That sounds like more inefficiency and inflation, and, yes, alongside less talent in the US a crack in the American dream. Although the United States seems to be the best positioned nation in terms of energy and food resources.

Crude jumped and the obvious story seems to be that that is because Joe Biden failed to secure a boost to production in his trip to the Middle East. It is then not so obvious why copper was up more than 3%. Copper fundamentals have not changed significantly. Supply is tight, inventories are low and the current sizeable drop seems mainly related to deleveraging in the wake of the Fed’s tightening. Also, a few days ago China announced that \$1.1tn would be made available for infrastructure investments, usually copper, and in general commodity intensive. Now back to crude. The story is similar, as inventories continue to trend lower and oil supply has not shifted. And OPEC forecasters see crude demand rise strongly in 2023, as per the latest outlook extending to the end of next year, hence the member countries could struggle to provide all the crude in demand. Overall, the commodity super-cycle seems to be alive and kicking, if anything taking a breather before surprising us with more of the same. Yes, unless Joe Biden decides to reverse his climate and energy policy and opens the US oil taps.

Although EU foreign ministers approved a new military aid package for Ukraine and discussed further sanctions on Russia, it is not clear how the block would be dealing with a halt of Russian gas supplies, which could cut the euro-area GDP by as much as 1.5%.

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