



CIO OFFICE MORNING MARKET WRAP – 20th April, 2022.

Overnight treasuries lower (US 10 year yield at 2.93%) on more hawkish Fed speak, gold lower, global equities higher and the Vix lower, oil lower but steady with Brent at \$108/ barrel. Yesterday, Asian markets had mainland China largely unchanged but Hong Kong and Indian equity indices lower by 2%. Regulatory overhang on China tech continues as Chinese regulators banned the livestreaming of unauthorized video games. UAE equities have been recently following an upward pattern with the Dubai Index catching up to Abu Dhabi's strong ytd gains with sentiment further improving on the easing of visas for visitors and expats. Stocks in Europe finished down following the long holiday weekend. French elections in focus this week as polling points to Macron being re-elected, though the result may be tighter than in 2017 and a late shift cannot be discounted. Macron is the status quo candidate and a victory for Le Pen is seen to be more disruptive for markets. The French presidential election debate is today.

This morning Asian markets have China equities open slightly lower, Hong Kong higher and Japan half a percent up. The ongoing war in Ukraine continues to add to uncertainty for markets as Russia has launched an assault in the eastern part of the country. This affects sentiment as well as adds to inflation concerns. Following the World Bank, the IMF cut global growth forecasts to 3.6% down 0.8% since the fund's January projections. The IMF highlighted that an immediate oil and gas embargo against Russia would further raise inflation with European and emerging economies affected more and necessitate rate hikes to combat

inflation, including in the US. While our inhouse estimates for Brent remain at around \$115/barrel for end 2022, JP Morgan writes that the European Union is considering fully banning Russian crude—if executed immediately would likely drive Brent crude oil prices to \$185/bbl as more than 4 mbd of Russian oil supplies would be displaced with neither room nor time to reroute them to Asia.

U.S. equities higher +1.6% yesterday, with tech leading, as US eco data still supportive as housing starts and building permits rose for March and earnings season remains upbeat (except for Netflix after hours). Consumer balance sheets still look healthy and likely to withstand the recent oil/ inflation increases better than initially thought and removal of mask mandates helping travel/leisure industry. With high inflation, investors are watching for signs that corporates are able to grow profits/ retain margins by passing on costs to customers through price increases. Central bank tightening remains in focus after Charles Evans, Chicago Fed president, said that the Fed is likely to raise interest rates to between 2.25 and 2.5% by the end of 2022 and may need to raise them further if inflation persists. This follows St. Louis President James Bullard who had said day before that a 75-bps rate hike is not off the table. The yield on the 10 year rose to 2.93%, the highest since December 2018, from 2.861% on Monday. The yield on the 10-year Treasury note indexed to inflation, referred to as the real yield, has moved into positive territory for the first time since March 2020. Fed Chair Jerome Powell and ECB President Christine Lagarde are to discuss global economy at an IMF event on Thursday.

FactSet consensus for the S&P 500 Q1 estimates y/y are earnings growth of 5.1% and revenue 10%. JNJ reaffirmed its full-year guidance, but suspended sales guidance for its covid vaccine due to a global supply surplus. Lockheed Martin noted a solid start to the year despite recent covid-related impacts to its supply chain with overall operating margin 12.9%. Netflix fell 20% in after-hours trading after updating subscribers were lower by 200,000 in the first quarter. Investors had expected an increase of 2.6mn subscribers. Its decade-long run of subscriber growth has ended and it was becoming “harder to grow membership”. It forecast subscribers would fall by another 2 mn in the current quarter, to about 220 mn. Current markets are saturated and competition from streaming services by Disney, Amazon and Apple have created headwinds. 22 US stocks report today plus we get Fed’s Beige Book with color on inflation and supply chain constraints.

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