



## CIO OFFICE MORNING MARKET WRAP – 21st January, 2022. ALSO AVAILABLE ON ALEXA.

Wednesday's pause in the global sell-off was short lived. While global stocks were little changed on average this Thursday, the world leading US session had a late session negative reversal, fueled by some disappointments in corporate earnings. US stock markets closed down -1.2%. This time, rising interest rates were not to blame, as they actually fell by 6 basis points across the 5, 10 and 30-year maturities. The 10-year Treasury yield is now at 1.80%, which happens to be our 2022 year-end fair value. Even oil didn't appreciate: the price of Brent crude oil moved down -0.1% to \$88.3, as US crude stockpiles had a weekly increase for the first time in 2 months, which was also the case for gasoline inventories.

The current short-term backdrop continues to revolve around the repricing of tighter Fed monetary policy, and uncertainty is exacerbated by the short-term impact of omicron on the outlook, tougher comparison for Q4 earnings, as well as by heightened geopolitical tensions. The "risk-off" sentiment is understandable, and its paradox is that fear supports defensive assets from a behavioral point of view, while they are fundamentally the most exposed to rising interest rates. This is why gold is steady and government bonds were better oriented yesterday. It is of course an unstable situation. Under the hypothesis of a material deterioration of the fundamental picture, the Fed should, and would, be less hawkish which would remove the major source of anxiety. If the fundamental picture remains robust, interest rates should be higher but earnings would flourish. This is why we call for a year of low visibility. We are less than a week before the next FOMC meeting and 2 weeks before the January economic data, and in the meantime markets will remain nervous – with no guarantee that they will stop being

nervous after that. The post-market -20% plunge of Netflix, due to a disappointment in their subscriber outlook, typically does not help finding short-term stability. Other “pandemic winners” such as Peloton or Disney are also sliding.

As we write this morning, Asian stock markets are falling, with technology rich Korea and currency sensitive Japan being the worse contributors, both at -1.4%. Hong-Kong and onshore China are currently down -0.7%. Interestingly, interest rates continue to fall with the US 10-year currently 3 basis points lower to 1.77%, and oil future contracts are losing 2% to \$86.5 for the Brent. The picture is even grimmer in the crypto sphere, confirming their sensitivity to global risk aversion, which is the consequence of massive adoption. Bitcoin is trading below \$39,000 and ether below 2,900. The Fed also initiated a discussion paper on the hot topic of a government-backed coin, so called CBDC for Central Bank Digital Currency. In our opinion, seeing CBDC as a competition to crypto currencies is a big misunderstanding of the fact that decentralized trust is the key attractive feature of cryptos, but it probably doesn't help sentiment. On the geopolitical front, tensions around Ukraine are not abating. The US and Germany issued a joint warning against a potential Russian aggression, and according to the Wall Street Journal, US-made weapons will be sent to Kiev. Let's hope that the meeting between Mr Lavrov and Mr Blinken planned today in Geneva will help de-escalate. With such a collection of concerns and a clear rise in volatility, more and more voices are calling for a major crash. The latest is Jeremy Grantham's, well respected for having correctly predicted the end of the internet bubble 20 years ago. He recalled that he predicted a similar historic collapse a year ago. In the meantime, stocks have appreciated by double-digit. Timing matters, and we keep on thinking that short-term predictions are noise rather than actionable input.

There will be only minor economic data being released today in terms of their potential impact to the big picture, except maybe for the Euro area consumer confidence, as well as probably unsurprising speeches at the virtual World Economic Forum. The earnings season will be more interesting, and investors' sentiment will keep the driver's seat.

Stay safe.

**MAURICE GRAVIER**  
Chief Investment Officer  
Wealth Management  
Emirates NBD

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