



## CIO OFFICE MORNING MARKET WRAP – Monday March 21, 2022. ALSO AVAILABLE ON ALEXA

Last week was dominated by two topics, the war in Ukraine and the US Federal Reserve meeting. Talks were unfortunately inconclusive on the former, but the latter provided markets with visibility on the perception and intentions of the world's most powerful central bank.

The Fed delivered Wednesday its first quarter-point increase since 2018, which was widely expected, if not telegraphed. More importantly, while acknowledging slower growth and higher inflation ahead, with increased risks from the international situation, the central bank expressed confidence in the resilience of the US economy. Their dot-plot now suggests a total of 7 rate hikes in 2022 and 3 to 4 more to come in 2023. They are confident that the most aggressive policy change in decades should not derail growth, and the job market in particular. While they revised their 2022 forecast for US GDP growth from +4% to +2.8%, they still expect unemployment rate to stay at

the very low level of 3.5%. Bottom line, the Fed is hawkish but hopeful, and also said it will remain nimble if needed. Markets, and risk assets in particular, took note in a very positive way. Stocks from developed markets gained a spectacular +6% over the week. Emerging market equities added a more modest +3.5%, but also benefitted from a helping hand from policymakers. China's vice premier Liu hinted at imminent action to decisively support growth and financial markets, including an explicit mention for the most battered sectors: technology and real estate. Gold and government bonds were logically the underperformers of the week, but there was no panic. Treasury yields ended the week at 2.14% for the 5-year, 2.15% for the 10-year and 2.42% for the 30-year. It looks like market participants welcomed the confidence of the Fed, but also noted its intention to be able to adapt to changing conditions. Bottom-line, the guidance on the trajectory of rates is seen as a maximum, reflecting a best-case scenario for the outlook, rather than as an irrevocably decided inflexible path. Another positive news for the financial system was the fact that Russia found a way to avoid defaulting on two US dollar-denominated bonds. This is a good news and an indication of moderation from Russia despite the critical damage from international sanctions on its economy and financial system. On the battlefield, the tragedy continues and now includes some technological escalation: after President Biden announced that the US would ship their Switchblades killer drones to Ukraine, Russia announced two strikes with their hypersonic missiles "Kinzhal" on military targets. While it is difficult to understand the benefits of a 10,000 km per hour speed in the tactical context, this can be seen as a reminder for the West that this weapon, which cannot be intercepted by any of NATO equipment now, is up and running.

Russia keeps on pressing on with its invasion and its demand to surrender Mariupol was rejected by Ukraine. Talks between the two countries are planned to resume today, while Turkey said an agreement on key points is close. Such statements already happened last week and were denied. Beijing declared it will do everything to de-escalate the war, and US President Biden is travelling to Europe this week. Europe's energy (non) independence remains in focus: Germany reached a deal to buy LNG from Qatar, while Boris Johnson will meet nuclear industry executives in the coming days. Closer to us, Yemen's Houthi rebels attacked multiple sites across Saudi Arabia over the weekend, days after an invitation for peace talks. Targets included an Aramco facility, at a time when the world's most valuable energy company announced a doubling of its net income to \$110 billion. This is around 3 times more than Apple, the world's largest company by market cap.

As we write this morning, Asian markets are mixed, taking some distance with Friday's rally in the West. Stocks gain +0.6% in Japan but are down between -0.2% and -0.5% in Hong-Kong, onshore China and Korea. Real estate developer China Evergrande Group suspended trading in Hong-Kong, which could be an indication of an imminent formal restructuring plan. Interest rates are stable but oil prices keep on rising, with

the Brent crude trading just above \$110. Future contracts on Western stock markets are modestly down, and so are major cryptocurrencies, although at elevated levels. Bitcoin trades just below \$41,000 and ether close to \$2,850.

Looking forward, we see last week's rebound in risk assets as another proof that volatility is the name of the game. This is probably not the beginning of a longer rally. We keep on hoping for a de-escalation in the coming weeks which would unlock some upside potential, but the situation remains highly uncertain and volatility should remain elevated. The upside potential exists but is conditioned to some big questions finding satisfactory answers: apart from the war, it's about the credibility of the Fed's hope that a full cycle of rate hikes will virtually have no impact on the US macro outlook. In an electoral year for the US, the highly unpopular inflation is certainly their priority. The week ahead will provide more speeches from central bankers attending a summit from Tuesday, as well as flash PMI numbers for March. NATO holds an emergency summit in Brussels on Thursday with the US President attending.

Stay safe.

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