



CIO OFFICE MORNING MARKET WRAP – 21st April, 2022.

Global equities gained yesterday with the US S&P 500 flat, the Nasdaq losing around a percent and European equities trading up 0.8%. Global equities are -7% YTD, with DM equities outperforming. Equity markets in Asia this morning have China and Hong Kong trading down. The rally of Chinese equities in late-March was short lived (we are neutral EM Asia except for India where we are overweight) and tech stocks underperformance has resumed. The MSCI China has fallen almost 20% YTD. The Nasdaq Golden Dragon and Hong Kong Tech Indices recent momentum is fading with the former falling 5% yesterday. Investors are disappointed at Chinese policy measures to counter the impact of lockdowns on the economy.

Japan equities up this morning and year to date the Nikkei Index is -3.5%, only second to the FTSE +5%, in terms of developed market region performance. We reiterate the outperformance of commodity exporters or heavy weighted commodity indices. UAE and KSA equity indices were both up yesterday with banks on a continues rally and YTD GCC performance +20%. We are overweight the GCC and UAE equity and debt markets The UAE will issue 2, 3 and 5 year AED denominated T-Bonds in May with the first auction size of AED 1.5 Bn subject to market conditions. This will be followed later by a 10- year bond. This will help build a local currency yield curve. Currently, KSA has a full fledged SAR curve with 2, 3 and 5 year yields around 3.2% to 3.5% range. Details yet to be known.

Gold steady at \$ 1950, US 10 year yield marginally lower at 2.86% and oil trading up holding well over \$100 barrel for both Brent and WTI. No respite on the Russia Ukraine conflict with increasing sanctions on Russia being talked of including an oil import embargo from some European countries. Russia was meanwhile ruled in potential default of two bonds, marking its first foreign debt default in a century.

While the peak-inflation debate is intensifying, U.S. 10-year real yields briefly turned positive yesterday for the first time since March 2020. China and Russia continue to be the major cause around supply chain disruptions. China is a major provider of many global industrial components and Russia at 11% of global oil production and a key agricultural producer along with Ukraine are behind the recent inflation spike which had begun with surplus saving driven consumer demand and is now shortage driven. Direction on rates and inflation may be clearer when Fed Chair Jerome Powell and ECB President Christine Lagarde discuss the global economy at an IMF event today. US Housing data continues to be affected by the recent rise in interest rates with existing home sales falling to the lowest level since June 2020 and mortgage applications dropping for a sixth-straight week. The Fed's Beige Book, a read on business activity ahead of its key May 4 monetary policy decision, showed while the U.S. economy grew steadily through early April, inflation showed little signs of abating, with firms in most Districts expecting inflationary pressure in the coming months. "Outlooks for future growth were clouded by the uncertainty created by recent geopolitical developments and rising prices." It highlighted the passing on of higher prices by firms to consumers and the shortage of workers.

For Q1 for the S&P 500 FactSet is estimating y/y earnings growth of 5.1%. 59 S&P 500 companies that have reported thus far, 56% have topped sales expectations and 78% profit estimates. Procter & Gamble, IBM and Tesla reported strong numbers yesterday. The first major U.S. automaker to report financial results for the quarter, Tesla beat estimates with a record profit. Shares rose past market close. CEO Elon Musk expects 2022 production to top 1.5 million vehicles, (2021 was 936,000) however cautioned that production is constrained by shortages and higher prices for key parts. This affects automakers and other industrial companies globally with supply bottlenecks on parts such as semiconductors. Elon Musk said more Lithium Production to meet battery demand was essential. Tesla is the world's most-valuable auto company, at a market cap of one trillion dollars, and is outperforming other auto makers. Increased sales of higher-margin vehicles and cost cuts helped Tesla improve its automotive gross margin to 32.9%. A major influencer on Twitter his recent "Love me Tender" tweet has raised questions on his next acquisition post the bid for Twitter.

Netflix lost 200,000 subscribers in Q1 versus an expected increase of 2.5 million, and the stock fell 35% (\$50 bn) in trading yesterday. With Asia the only region seeing membership growth, the company's positive cash-flow target is at risk and the outlook is muddy. Affecting addition of streaming subscribers, were opening of economies, higher subscription fees, subscription sharing and services in Russia curtailed. Lower cash generation risks will however lead to lower spending on unique content, which could dent its long-term growth outlook amid a backdrop of rising competition in streaming and slowing economic growth.

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