



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

The summer solstice with plenty of sunshine on the longest day of the year, could hopefully bring some respite to markets which have had one of the worst 6 month performance in years. Yesterday was a fairly uneventful day with all asset classes steady and posting small gains. The US was closed for Juneteenth Independence Day, commemorating the emancipation of enslaved African Americans. Global equities, 9 of 11 global sectors were up, had broad gains up 0.3% led by developed markets with European equities up a percent while emerging markets fell 0.4% with China and India flat to up and the UAE market having a down day. UAE equities have now given up all gains for 2022. This follows last week's dismal performance with global equities falling 6%. This morning, Asia equities have China largely unchanged while Japan equities are up 1.5%. Lockdowns in China in the Shenzhen area increase. Gold steady at \$1841, Brent oil futures up at \$115 and the US 10 year/ 2 year yield at 3.27% and 3.23%, respectively with the flattening of the yield curve in place. A small respite on the US 10 year Treasury with the yield having almost touched 3.5% last week. Bitcoin and Ether holding above critical \$20,000 and \$1,000 levels respectively.

US President Joe Biden reiterated that a US recession isn't "inevitable," following a conversation with Larry Summers. Central bank policy remains hawkish and yesterday we heard from Christine Lagarde who restated ECB officials' intention to raise rates in July and September, despite risks to financial stability — which she said have "perceptibly increased since the beginning of this year and James Bullard, St Louis Fed President, warned that US

inflation expectations risk becoming "unmoored without credible Fed action," leading to even higher prices and economic volatility. Policy maker Catherine Mann said the BOE needs to raise rates more aggressively to stave off a drop in the pound that would drive up inflation.

A changing regime with bond and equity returns in parallel. Supply constraints, higher interest rates, and heightened geopolitical risks against a backdrop of slower economic growth with efforts to curtail demand driven by fiscal surpluses. Whilst the current equity market sell off has been driven by a rerating of valuation multiples, earnings are the next worry. Tightening monetary policy, with inflation at a four-decade high, has increased fears of a recession. Data on retail sales, consumer sentiment, home construction and factory activity have shown weakening in recent weeks. Corporate earnings have been stellar in Q1 with fairly upbeat projections for 2022, even though 80% of S&P 500 companies mentioned inflation on their earnings calls in Q1. Analysts expect S&P 500 companies to report 10% earnings growth in Q3 and Q4, according to FactSet.

We expect more visibility post Q2 earning updates and also some turnaround in bond and equity performance once a volatile summer fraught with potential rate hikes across the US, Eurozone, UK and India is over. China and Japan remain in the camp of loosening monetary policy with the former focused on stimulating growth post severe lockdowns. We are mildly constructive on equity performance into the year-end but remain cognizant of the inflationary pressure on profit margins of corporates and the buying power of consumers. We will remain reactive to data and corporate guidance. In fixed income we are close to neutral on developed market sovereign debt and have been slowly reducing our overweight as yields rise close to our fair value and have taken off our overweight on EM debt as the credit cycle changes with slowing economic growth.

Global supply chains remain in focus. Whilst the move to decarbonization and the race to net zero is a common government goal, Germany refires coal plants to reduce dependence on Russia for fuels. In the US Treasury Secy Yellen urged the US to work on shifting dependence on some nations for supplies of critical inputs as global supply chain logjams have hurt the domestic economy.

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Chief Investment Office
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