



CIO OFFICE MORNING MARKET WRAP – Tuesday February 22, 2022. ALSO AVAILABLE ON ALEXA

Stocks have continued to drop as the Ukrainian crisis still takes center stage. US futures are less than 2% negative as of the time of writing, and Asia-Pacific equities are at their lowest levels this month amidst declines in China, Hong Kong and Japan. US markets were closed yesterday for President's day, while European equities were 2% in the red and reached 6-month lows. The Russian indices sank the most since the 2008 financial crisis and the ruble weakened for a third straight day. Emerging markets on the other hand were dragged down by a renewed regulatory crackdown in China. US treasury futures are gaining this morning, gold is above \$1,900/oz and has seen rising inflows recently, the dollar is supported by a sliding euro and crude oil is recording new highs for the year.

Putin said that he decided to recognize the independence of the Ukrainian regions controlled by Russian-backed separatists, with European leaders expressing disappointment and stoking fears of a forthcoming invasion. This cast further doubt on the meeting with Biden, which Moscow said is “premature”. While US calls that a war is imminent have multiplied, the Russian president ordered the Defense Ministry to send “peacekeeping forces” to the breakaway regions. The situation is in flux and we can only renew our advice to clients to play offence and defense at the same time, by holding a diversified portfolio which should prove to be more resilient in conditions of such low visibility. And visibility seems to be low for everybody, starting from Goldman Sachs, expecting more than 6% downside on US large caps from Friday levels if the crisis unravels, to JPMorgan, saying that stocks should stabilize three months after the first rate hike - yet both eventually seeing the bull market resuming - to Jeremy Grantham, the renowned investor who called previous bubbles, and says that we are in a super-bubble and markets will crash.

On a lighter note European private sector growth accelerated in February, according to PMI surveys. Covid-containment measures were relaxed and the composite index recorded a larger rise towards the upper-end of the range, rather than a more modest one as forecast. Growth was stronger in the services sector, though manufacturing remained resilient. It remains to be seen whether this will be enough, alongside persistent inflationary pressures, to push the ECB to adopt a more hawkish stance. How the Ukrainian issue is going to unfold will also play a key role in the final policy decision, since Russia is the supplier of 40% of the natural gas to Europe.

In a major shift Boris Johnson ended virus rules in England, making the UK the first major economy to scrap restrictions related to the pandemic. The telling name of Johnson’s plan is “Living with Covid”, and critics say he is “moving too fast”. Australia is also lifting restrictions, though at a much more moderate pace, with fully-vaccinated tourists arriving for the first time after almost two years. One of the most scarcely populated regions in the world went through the most severe lockdowns for fear of contagion. How should that extrapolate to the most populous places? Maybe China’s zero-tolerance approach can be seen as an instance of that.

Chinese benchmark tech-stocks incurred heavy losses yet again, after the government said on Friday that China's online food-delivery platforms should reduce the fees they charge to businesses, which sent the sector leader Meituan tumbling. Alibaba Group lead declines yesterday, as authorities are embarking on another round of checks on its fintech business arm. Investors are grappling with the question of how much the earnings of tech giants will be impacted in the longer term as they are required to take more social responsibility. Stay safe.

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