



CIO OFFICE MORNING MARKET WRAP – 22nd March, 2022. ALSO AVAILABLE ON ALEXA.

The first day of the week was relatively quiet on stock markets, which were overall -0.1% lower in DM and +0.1% better in EM. The action was elsewhere, with a spike in bond yields, as Jerome Powell said a half-point rate was possible as soon as May. On the shorter-end, he 2-year and 5-year Treasury yields both added 18 basis points to respectively 2.11% and 2.32%. The 10-year gained 14 basis points to 2.29% while the longer 30-year increased 10 basis points to 2.52%. The gap between the 30-year and the 5-year, at a mere 20 basis points, is the narrowest in 15 years. That's a serious bear-flattening in a single-day, with the front-end taking the hawkish Fed more seriously, while the long-end reflects questions about the future mix of growth and inflation. Talking about inflation, energy prices also spiked on Monday, with the price of Brent crude oil rallying +8% to close just below \$117, on signs that the European Union may be moving closer to a ban on Russian crude imports. There was no material evolution in the situation in Ukraine, as the war now approaches the one-month mark.

As we write this morning, Treasuries are only extending losses in Asian markets, with yields adding between +4 basis points for the 2-year, now trading at 2.15%, and +3 basis points for the 10 year, at 2.32%. Interestingly, equities are not depressed by higher borrowing costs - which should logically imply lower valuation multiples. Indeed, the Nikkei is up 1.5%, reopening after a holiday and benefitting from an always weaker yen – close to a 6-year low against the

dollar at 120. Stocks also gain a robust +1% in Hong-Kong and +0.7% in Korea, while China's domestic markets are flat. There are specific reasons: Japan has not started any monetary tightening, which makes the yen less attractive, a good news for this exporting country. China is even clearly on the easing side, with a clear willingness to support both the economy and markets. But still, it indicates that the spike in treasury yields does not trigger a panic from market participants. Seeing higher expected returns from low-risk asset classes such as short-duration treasuries is actually not all bad from a diversified investor's perspective. Future contracts on Western stock indices are however modestly lower, while oil prices continue to rise with the Brent trading above \$118. Major crypto currencies are also sought after, with bitcoin up 3% to \$42,300 and ether trading above the \$3,000 mark.

There is no major data release or planned event today; we keep on expecting volatility ahead but maintain our current positioning for the time being with an overweight in stocks and an underweight in safe bonds – for the latter, we will closely monitor the evolution and adjust our fair-values in the coming weeks, as absolute levels are beginning to be very tempting.

Stay safe.

MAURICE GRAVIER
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