



CIO OFFICE MORNING MARKET WRAP – 22nd April, 2022.

Monetary tightening and inflation continue to drive markets globally. Yesterday, saw global equities fall a percent with YTD losses now at 8%. Gainers included Europe, India and the UAE while US and China indices fell. US equities early strength with the S&P 500 above the 4500 level did not hold. While the S&P 500 fell 1.5% the Nasdaq lost more down 2%. All global sectors fell though services subsectors did better i.e. airlines and leisure. The airlines industry is talking of robust demand trends and looking at profitable operations despite fuel-cost pressures. The US Treasury curve bear flattened, following hawkish central bank commentary. The 10 year US Treasury yield is at 2.95%. The US Dollar is stronger against the yen, weaker vs the euro. Oil higher and Brent over \$ 107/ barrel. Gold flat at \$1947. Asian equities lower this Friday morning with the Hang Seng, Nikkei and China mainland indices declining. The Nasdaq Golden Dragon Index that tracks China company shares listed in the US had a second day of a 5% drop and has fallen 30% year to date.

UAE equity markets performance should be further boosted by strong bank earnings, real estate sector rebound and the planned Treasury issuance. The Ministry of Finance announced that the first auction of AED denominated T-Bonds to happen in May. The tenures would be 2,3, and 5 years. Subsequently, a 10-year note will also be issued. There is a plan to hold eight auctions this year with a total issuance size of AED 9 Bn. We see a multitude of benefits. In conjunction with taking blue-chip companies public, this will strongly push the local capital markets and create a new attractive segment within the broader Emerging Market fixed income for both local and foreign investors. Building a local mid-term yield curve provides a reference point to price both debt and equities. It will diversify the source of funding for the sovereign. Moreover, as the yield curve

matures, we will see an influx of corporates that will be able to tap the public debt market in the local currency, thereby benefitting from multiple funding channels. We are confident with the maturity of the debt market, the UAE can become a part of the various Emerging Market Debt indices, which would lead to an inflow of foreign capital to boost the local markets in due time further. Emirates NBD is designated as a primary dealer.

Hawkish central bank commentary in play. At an IMF-hosted panel in Washington that he shared with ECB President Christine Lagarde, Fed Chair Powell said he saw merit in the argument for front-loading interest-rate increases, including a half percentage-point hike next month. "I would say that 50 basis points will be on the table for the May meeting," and "We really are committed to using our tools to get 2% inflation back," he said, referring to the Fed's target for annual price increases. The world is seeing some of the highest inflation rates since the 1980s as Russia's invasion of Ukraine boosts food and energy prices and China's lockdowns add to supply chain woes. Separately, Fed's Daly said the FOMC still needs to deliberate whether rate hike should be 25bp, 50bp, or 75bp. St. Louis' Bullard said inflation expectations are severe though also said Fed isn't as far behind the curve as some think and again talked up potential for a 75-bps hike. Weekly initial jobless claims came in at 184,000, above consensus for 178,000. April Philadelphia Fed manufacturing index registered 17.6, weaker than forecast for 19.8 and March's 27.4 level. Shipments and new orders were lower m/m but remained positive. Hawkish Fed speak doesn't affect our investment hypothesis of being constructive on equity performance into year end. The economy is improving, the consumer is strong, corporate earnings are rising and inflation is likely to decline. According to FactSet, blended S&P 500 earnings growth rate for Q1 currently stands at 6.5%, up from the 4.7% expected at the end of last year. Earnings are surprising to the upside by more than 9%.

Overseas, several ECB officials made hawkish comments, noting QE could end in July with a rates lift off also taking place that month. Money markets now pricing in three ECB rate hikes in 2022 for a total of 75 bps. While the Fed has grabbed most of the headlines. ECB comments add to the broader central bank policy shift.

Shanghai's stringent lockdowns continue as authorities announced tough restrictions on mobility will remain in place following renewed rise in transmission outside quarantined areas. Companies are allowed to resume full production however face manpower and logistical challenges. The elongated lockdowns are increasing global supply chain issues and reducing trade flows and the IMF is concerned about spill overs to the global economy. China growth is continuing to see downgrades from institutions and investment houses as headwinds from its 'Covid Zero' stance and disappointment over recent PBOC easing measures. The latest step was a statement from the securities authorities urging institutional investors to buy more domestic shares. Yuan weakness and capital outflow pressures are also of concern.

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