



**CIO OFFICE MORNING MARKET WRAP – Wednesday February 23, 2022.
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US equity futures are rising and Asian stocks mixed this morning as investors gauge the impact of sanctions imposed by the US and allies on Ukraine. The S&P 500 entered correction territory yesterday, falling 10% from its all-time peak, to close at -1%, while Europe was little changed regaining the session losses. Appetite for safe-havens ebbed, with gold and US treasuries steady. The yield curve flattened further and commodities rallied, highlighting risks from inflation. Concerns that supplies of basic resources could be affected by the US-Russia stand-off have boosted prices ranging from energy, to wheat and nickel. Brent crude reached a new year-high at 99.5 to close at +1.5%.

President Joe Biden said that Putin is “setting up the rationale to take more Ukraine by force” and unveiled sanctions called “incremental” by US officials, targeting Russian debt and some of the elite closest to the Russian leader. Biden said that he will be sending US troops to the Baltic regions to defend the NATO countries and that the penalties are a first step. The Russian government was cut from Western financing and two state-owned banks financing the country’s defence and economic development were targeted. The US is working with Germany to ensure that the Nord Stream 2 pipeline connecting Russia with Germany will not move forward, with Germany halting its certification. The European Union and the UK earlier also announced a package of limited sanctions. In a more symbolic than practical move, some measures would be applied to the separatist territories in Eastern Ukraine too, which Putin had recognized as independent. The stand-off has now reached a new level where each side could take incremental steps, although President Biden could have a tough time keeping a motley crew of allies together which would be hesitant to escalate, being Europe very dependent on Russian energy imports. Overall, the sanctions appear modest, rather than sweeping as previously telegraphed by the US and allies, with the halting of the Nord Stream 2 project being the most impactful one.

The US consumer confidence report currently has particular significance, at a time when the economy plays quite a role in supporting markets weighed down by inflationary pressures and the outlook for tightening policy. The Conference Board gauge dropped to a five-month low and was in line with expectations, but with a widening and deteriorating gap between the assessment of current conditions and expectations. The prospects for both income and employment darkened, while the present-situation reading increased. Inflation may have played a role in hampering buying plans, with expectations for one-year ahead inflation rising and intentions to buy durable goods deteriorating. Looking ahead, this report is leaning neutral to negative. This sober reading must be contrasted with the German Ifo Business Confidence report, more upbeat as companies look to the lifting of covid restrictions with optimism. The expectations component rose significantly above economist forecasts. Inflation and Ukraine remain known unknowns, but the Ifo survey is overall constructive.

The US real estate market seems to be headed for a temporary slowdown. US home prices saw their biggest yearly increase in about 34 years in 2021, surging more than 18% according to the Case-Shiller National Home Price Index released yesterday. Is this the side-effect of huge stimulus as well? Maybe. What is more relevant is that economists expect the pace of home-price growth to slow down in the face of rising interest rates. 30-year mortgage rates adjusted for inflation expectations have increased by more or less 1% over the last few months, while real wages have deteriorated. However, as long as real rates remain stable in the longer term, the sector should eventually recover its bullish trend. And central banks will be more than willing to cap real rates to avoid seeing the cost of servicing public debt surge. Stay safe.

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