



CIO OFFICE MORNING MARKET WRAP – Friday 24th June, 2022.

Global stocks were modestly up on average yesterday but importantly US shares closed on a positive tone, gaining +1%. They were supported by another fall in interest rates. The US 10-year Treasury yield decreased -7 basis points to 3.09% and the 5-year shed -9 basis points to 3.14%. The price of Brent crude oil closed down -1.6%, just below the \$110 mark.

As always when both stocks and bonds are up, central banks are involved. Yesterday was about some hopes on the duration of the Fed's tightening. This didn't come from the Fed itself: chair Powell reiterated that the economy is very strong, and that the objective to curb inflation is unconditional, while other officials continued to guide the markets on a serious probability for another 75 basis points hike in July. The hopes came from weaker than expected economic data. After materially lower consumer confidence reports Wednesday, flash PMI for developed markets also indicated weakness yesterday. The composite index, aggregating countries on both manufacturing and services activities, reached its lowest since January at 52.1. This -2 points decrease was led by declines in both the Eurozone and the US – the UK and Japan were more resilient. In terms of sectors, the manufacturing index lost -2.9 points while services were -1.7 lower. Weekly jobless claims in the US, for what it matters, were also at a 5 week high. Seeing weak economic data being good news for markets is obviously weird, but

that's not unusual since central banks' actions are the predominant force driving asset prices. A weaker economy means that the tightening cycle might be shorter, which is also not inconsistent with its very aggressive start. Swap rates reacted: their implicit peak date for the Fed hike cycle is now in March, and the implicit additional cumulative increase in policy rates for 2022 is now at 177 basis points. The pain could be shorter and lower. This explains the support for government bonds, and in turn, some relief on equity valuation multiples, especially the long-duration segments such as technology – the Nasdaq clearly outperformed yesterday with a +1.6% gain.

The mood is similar in Asia as we write. Stocks are in the green everywhere, led by tech heavy markets Korea and Hong-Kong, up around +1.5%. Japan and onshore China are also up around +0.7%. National CPI was just out in Japan and the absolute number remains very contained with a +2.5% year-on-year increase. US dollar interest rates are stable, holding yesterday's gains, while oil prices are marginally lower. Major crypto currencies are sought after, with bitcoin at \$21,000 and ether at 1,150.

So far this week looks better than the previous one, but we keep on expecting extreme volatility, around macro factors and their read-across for central banks of course. The war is also not over, with Ukraine just being granted a status of official candidate to the European Union yesterday and the US pledging an additional \$450 million package in advanced weaponry. On the other side, levels of pessimism are so high that volatility works in both directions, including the possibility of sudden rallies. Short-term speculation and excessive leverage are thus extremely hazardous.

There is no major data release today, we will have a look at retail sales in the UK, and at sentiment surveys in both Germany and the US. Stay safe.

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