



## CIO OFFICE MORNING MARKET WRAP – 25th May, 2022.

Global equities gave up Monday's gains, falling almost a percent yesterday amid a broad sell off, from Asian markets in the morning to Europe in the afternoon and the US later in the day. UAE markets have not had a good day either though capital issuance is being well received with strong dividend paying companies in favour. This morning Asian markets are steady with negligible changes either way. U.S. stock indexes ended lower (except the Dow) yesterday, led by a selloff in technology stocks as SNAP's earnings triggered concerns within the Tech complex about a digital advertising revenue slow down. Downbeat reports about home sales and corporate outlooks added to economic growth and rising interest rate headwinds, which are already weighing on markets. The S&P 500 fell 0.8%, to finish Tuesday at 3941 and the Nasdaq fell 2.3% taking YTD performance for the latter to -28%. US markets while negative recovered somewhat from an even deeper sell off from earlier in the day.

A volatile year continues, as war in Ukraine, high food and energy costs, rising rates and tepid outlooks from big companies weigh on investor sentiment. Yesterday saw a preference for the more defensive sectors i.e. staples, healthcare and real estate which finished up. Risk off the table as the yield on the 10-year U.S. Treasury note fell to 2.76%. Central banks continue to tighten and the RBNZ raised its key interest rate by 50 bps for a second straight meeting and forecast more aggressive hikes to come to tame inflation. Gold up to \$ 1860. Oil a little higher with Brent futures almost at \$ 115 this morning.

Europe equity indexes mostly ended down yesterday. Economic data had Eurozone manufacturing and services output slowing more than expected though both continue to depict expansion. U.K. business activity also slowed more than expected but continues to grow. French business confidence for May held steady. The euro moved higher versus the U.S. dollar on the back of ECB president Lagarde's commentary on expected tightening in H2.

S&P purchasing managers' index data showed that business activity in the US slowed in May. The preliminary Manufacturing PMI Index for May declined to 57.5 from April's unrevised 59.2 figure. The preliminary Services PMI Index slowed to 53.5. However, readings above 50 for both indexes denote expansion. S&P Global said companies reported that "demand is coming under pressure from concerns over the cost of living, higher interest rates and a broader economic slowdown." In housing news, new home sales fell 16.6% m/m in April to an annual rate of 591,000 units. The median home price rose 19.6% y/y to \$450,600. New home inventory rose to 9 months.

Looking at forward multiples, the S&P 500 is trading at 17.3X FY 22 and 15.9 X FY23 indicative that earnings are growing 8-10%. The multiples are not far from FactSet data which has the 10-year average at 16.9x and 20-year average at 15.5x. Therefore, if earnings growth and valuations are not a worry, we need to look through the current inflationary and tightening pressure's effect on markets and look out to the medium to long term.

Worries about disruptions to Snap's advertising revenue affected social media stocks Meta and Google parent Alphabet, which saw their shares fall though not as much as SNAP's 43% fall as it guided that the macroeconomic environment has deteriorated more than expected.

Stay safe.

Chief Investment Office  
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