



CIO OFFICE MORNING MARKET WRAP – Wednesday January 26, 2022. ALSO AVAILABLE ON ALEXA

US equity futures are climbing and Asian stocks mixed this morning following one more volatile session on Wall Street Tuesday. Technology stocks are advancing in Hong Kong and European futures are in the green. There was nothing new under yesterday's sun versus the day before yesterday, with markets still sliding in spite of the spectacular intraday reversal on Monday, which dangled just a glimmer of hope before the dip-buying crowd. Since earnings do not seem to have moved the needle much so far, investor focus remains on the FOMC meeting ending today and the crisis in Ukraine. Technology is leading losses again, alongside industrials and retail companies. US equity volatility is headed towards its highest levels in a year. The US dollar gained, long-dated treasuries edged higher with gold, and crude oil resumed its uptrend.

Bill Dudley, ex New York Fed President, said on Bloomberg that chair Powell is keen that Fed's policy is well understood by market participants, so shocking them would not be the name of the game. Scott Miner, CIO of Guggenheim Capital, said Monday that he is amazed that the Fed "would even consider an attempt to raise rates and

reduce the balance sheet simultaneously”, given how badly the last episode played out in 2018. In summary, it seems that we should in no way expect a shock and awe kind of message delivered at the conclusion of the FOMC meeting this evening.

The reporting season is particularly rich this week. Earnings of some of the largest companies were in general above expectations yesterday. Microsoft reassured investors about the growth prospects of the closely watched Azure cloud-computing business, and earlier reported quarterly sales that topped \$50bn for the first time and profit above expectations. IBM beat estimates by reporting the best sales growth in 10 years on rising demand for cloud services and consulting, though the majority of analysts remained unimpressed questioning that one datapoint did represent a turning point. Verizon numbers were above expectations, as well as its full-year earnings forecasts. Johnson and Johnson beat on earnings and sales, while General Electric missed on revenue.

The IMF lowered its forecasts for global growth, preceded by the World Bank which did the same two week ago. Both institutions share some consensus calls, by slashing world growth on lower US and China estimates and persistent inflation, and seem to be lagging in adjustments already made by investment houses. In the US the fiscal cliff, and in general the waning of stimulus will weigh, while in China it is the real estate sector which matters most. While we are not looking for creativity or promptness in these reports, it is the direction of travel of the economy as central banks are inclined to withdraw liquidity which can raise some concerns.

In the United States consumer confidence released by the Conference Board pointed to an upbeat mood about present conditions, though consumers felt much less so about their income prospects, either due a perceived slowdown, biting inflation or lack of stimulus. Obviously, healthy spending remains at the forefront of any constructive outlook. The problem is that with retail sales already up more than 20% above pre-pandemic trend, high single-digit inflation and stimulus payments slowing down to a trickle, there is a lot of uncertainty about consumption patterns holding up. The University of Michigan Consumer Confidence is already below pre-pandemic lows, and in the last release real retail sales growth was negative. This space will deserve close watching. Stay safe.

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