



CIO OFFICE MORNING MARKET WRAP – 26th April, 2022.

Monday started on a clear risk-off tone but the US session was better. Global stocks fell -1.3% on average in developed markets and -2.3% in emerging ones, but US shares closed at +0.6%. Bonds were sought after, with US Treasury yields losing -6 to -8 basis points across maturities. The 10-year shed -8 basis points to close at 2.82%. The price of Brent crude oil confirmed its consolidation, closing -3.9% lower than Friday at \$102.5. The trade-weighted dollar gained another +0.5%, especially against the yen.

The key headline of last night is of course the success of Elon Musk's bid to buy Twitter for \$44bn, a 38% premium over the stock's closing price on April 1st. The serial entrepreneur secured funding, convinced the board and intends to take the company private, with plans to increase its functionalities and unlock both its financial and social value. The former is about monetizing a huge base of highly engaged users as well as leveraging on the crypto community which has recently been a source of rejuvenation for the 16-year old platform. The latter is about promoting free-speech: Mr Musk sees Twitter as "the town square where matters vital to the future of humanity are debated". One can reasonably expect an "edit" function to be added, more crypto functionalities, and Donald Trump's account to come back – which may be the reason why Elizabeth Warren called the deal "dangerous". Shares of Twitter closed at \$51.7, a bit below the \$54.2 bid price.

News from the conflict in Ukraine are not good. Talks between Russia and Ukraine have stalled, and the US ramps up its financial and military support to Ukraine, after a high level visit to Kyiv Sunday, with an explicit objective to weaken Russia's military capacities now and for the future. This prompted a sinister warning from Sergei Lavrov who said there is a "serious danger" of nuclear conflict. Turning to China, the PBOC announced more support to the economy, with measures aiming at limiting the drop in the yuan through a cut in the foreign-currency deposits' Reserve Requirement Ratio. On the pandemic front, testing has been expanded in Beijing but the capital is so far avoiding a full lockdown.

As a result and also reflecting the positive close of US stocks, markets are well oriented in Asia this morning. Equities are up +0.6% in Japan, helped by a weak yen, and +1.5% on average between China's domestic and offshore markets. With regards to the latter, tech stocks are outperforming in Hong-Kong. This doesn't compensate for Monday's plunge but it's a change in direction. Korea is also up, and so are futures on the Eurostoxx index. Treasuries are consolidating after yesterday's gains, with the US 10-year Treasury yield gaining +3 basis points to 1.85%. Oil prices are marginally higher, and gold hovers around the \$1900 level – which happens to be our year-end fair value. Crypto assets are better, with bitcoin and ether regaining their psychologically important levels of respectively \$40,000 and \$3,000.

Bottom-line, valuations are now reasonable for both stocks and bonds, and behavioral factors are not far from capitulation, as indicated by both surveys and objective measures such as implied volatility. As a result, it only takes one day without a Fed official upping the ante on future tightening to see some green in risk assets. It doesn't mean that volatility is over – it is definitely not- but expected returns from the current levels should be positive for the medium term. Our positioning remains close to our long-term strategic allocation, and we are ready to continue to react in a contrarian way to any excessive market move.

Today won't see major economic data being released but a couple of speeches from central banks' officials and the Richmond Fed manufacturing index. Most importantly, quarterly earnings include blue chips such as Novartis, UBS, HSBC and GE, as well as the first big tech names: Microsoft, Visa and Texas Instruments.

Stay safe.

Chief Investment Office
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