



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

A small but broad global rally yesterday, with all sectors gaining. Energy continues to be on top. US equities gained, the S&P 500 while still below 4000, closed up a percent, with the Nasdaq higher at +1.5% as the technology sector took some comfort from the Fed minutes which gave direction to the rate hikes and were less hawkish than expected. European equities were up with bank shares leading. Asia markets this morning have China and Hong Kong markets trading a little down, after a positive day yesterday though shares of China tech companies listed in the US and Hong Kong continue to get battered. Our preferred markets the UAE and India whilst still outperforming, have recently lost some of their year-to-date gains. India's domestic economy and the UAE which continues to see strong economic growth are in our view better placed. US Treasuries nearly flat with the 10-year yield at 2.76%, the U.S. dollar unchanged and oil prices higher with Brent futures at \$114.6, while gold flat at \$1851.

Most asset classes from the safest government bonds to high growth equity strategies have negative YTD returns. Commodities have been the only exception and physical real estate assets. Inflation concerns have led to tighter monetary policies from the Fed and the Bank of England, with expectations that the ECB will raise rates later this year. Global recession worries have risen amid the tightening monetary policies and signs of slowing economic growth from the two largest economies, the U.S. and China with the war in Ukraine creating an energy crisis in Europe where growth expectations have been severely revised down.

The afternoon release of the minutes from the Fed's early May monetary policy meeting reiterated the Committee's resolve in its aggressiveness in upcoming meetings. The minutes said, "Most participants judged that 50 basis point increases in the target range would likely be appropriate at the next couple of meetings," adding, "a restrictive stance of policy may well become appropriate depending on the evolving economic outlook and the risks to the outlook.". This would be in line with the Fed's goal of "expeditiously" getting interest rates back up to a neutral setting, where it is neither boosting nor slowing the economy." Several participants commented on the challenges that monetary policy faced in restoring price stability while also maintaining strong labour market conditions.

The S&P 500 has been choppy this week after a consecutive 7th weekly drop, with persisting inflation pressures and expectations of an aggressive Fed monetary policy tightening campaign. We looked at the big investment houses outlooks near term and of course there are big cries of volatility and comparison to 2008 and other global drawdowns. Firstly, history is not an exact indicator of market moves unless the macro conditions and corporate fundamentals are similar. Secondly the investment houses are still expecting the S&P 500 to end the year at between 3900 (just one) at the lower end to 4900 (most) at the upper end. Our year end estimate is at 4700 based on a 10% earnings growth and 20X P/E multiple estimate. But we expect extreme volatility to continue till inflationary pressures and supply chain constraints get under control. Thirdly despite a drop in consumer confidence, spending has held up so far this year, with many indicators at solid levels. However, sometimes the trend is more important. April preliminary durable goods orders rose 0.4% m/m, vs March's downwardly revised 0.6% increase. The MBA Mortgage Application Index declined 1.2% last week, down for a second week. Retail earnings from Best Buy, Abercrombie & Fitch, Ralph Lauren, Nordstrom, highlighted that Americans are still shopping, but more selective about what they are buying and the divergence between higher and lower income shoppers.

Nvidia the largest US chipmaker and once close to being a trillion-dollar cap company, before it lost 42% YTD disappointed with guidance on the war in Ukraine and China lockdowns weighing on results. Apple was in focus after a report that the lockdowns in China may have delayed its new iPhone production. We get earnings today from Alibaba, Baidu, Dell, and Macy's. On the macro front US first-quarter GDP figures, initial jobless claim and consumer spending data

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