



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

Markets didn't take a clear direction on Monday, to start a week loaded with top-down and bottom-up events. Global stocks were little changed on average across regions and countries. US Treasury yields were slightly firmer across the curve, with an average +4 basis points gain. The 10-year ended the day at 2.80%. The price of Brent crude oil added +1.7% to just below \$105. Most action was elsewhere in the energy sphere: prices of natural gas jumped by more than +10% in Europe after Russia announced another cut in gas deliveries through the Nord Stream 1 pipeline. Essential turbines are due for maintenance and according to Gazprom, serviced elements are not coming back from the West due to sanctions. According to Europe, it's a weaponization of energy. Whatever actually happens, the only certainty is that Europe would be in trouble without sufficient supply of gas especially in the winter season. The European Union will hold an emergency meeting on energy today.

Switching to the US, news are not great. Two activity indicators from the respective regional Federal Reserves of Chicago and Dallas came out weaker than expected yesterday, consistent with the soft flash PMIs released last week. A loud confirmation came from Walmart: weeks ahead of their planned Q2 earnings report, the company issued a material profit warning yesterday. Inflation seriously hurts demand, especially

for big-ticket items. US shoppers are focusing on essentials as consumer prices are obviously soaring. It is the second cut in their own profit outlook for the year in two months. Shares of the world's largest retailer tumbled, sending shockwaves across the sector, from Amazon to Target. It happens that Coca-Cola, Visa, Unilever and McDonald's are due to report their Q2 numbers today. This will provide more color on the current state of mass consumption in the US, ahead of the release of the country's second quarter GDP growth – or contraction? According to Bloomberg, the Biden team is prepared to react to a bad number: the message would basically be that two consecutive quarters of economic contraction looks like a recession, but that it's not a real one since there is full employment. Fact is that the US is one of the rare countries in the world which has a dedicated administration to officially declare, usually after more than a year, if a recession happened in this distant past. Headlines could be huge, and markets could be shocked, however this should not be a total surprise: demand destruction is the path to battle inflation, and that's precisely what the Fed is engineering. Whatever the definition of a recession, we still tend to believe that the US economy is not headed for a disaster.

As we write this morning, the mood is not bad on Asian markets. Stocks are up +0.8% in both China and Hong-Kong, and +0.2% in Korea while Japan is flat. Future contracts on Western equity indices are modestly in the red. Interest rates are very marginally lower, at around 3% for the 2-year and 2.8% for the 10-year. One ounce of gold trades at \$1726, while the price of Brent crude oil is up +1.2%, above the \$106 mark. Finally, major cryptocurrencies are in the red – bitcoin is -5% lower, around \$21k and ether loses -6% at \$1420.

Today we will read the IMF's world economic outlook update – which will of course not be very optimistic. US July consumer confidence and June new home sales will also be of interest. However the focus will be on corporate earnings, and it's a huge day with many global leaders on tape: Alphabet, Microsoft, Visa, UBS, LVMH, Unilever, among others, will release their Q2 numbers. We expect a common pattern combining a robust quarter with lots of caution in any forward-looking guidance.

Stay safe.

Chief Investment Office
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