



CIO OFFICE MORNING MARKET WRAP – 27th May, 2022.

A rally across most regions with global equities gaining for a second day, +1.5% yesterday and all sectors up. Retail and tech were behind a 2% rally in the S&P 500 with tech shares supported by the US 10-year Treasury yield falling to 2.74% from a high of 3.2% two weeks ago. The German Bund yield has also declined, from 1.2% per cent to 0.96%. In the US, Junk bond yields fell this week, indicative of a risk on mode for investors and more confidence in the higher yielding debt corporates. Monetary policy direction is clearer from the Fed, the ECB, the BOE and the Reserve Bank of India in tightening mode and China the reverse which has recently reduced a key mortgage lending rate. More fiscal stimulus from the UK with a windfall tax on energy companies to support handouts to pensioners and rising energy bills for consumers.

We head into the last trading day of this week with +4% gains already this week for the US and after 7 weeks of closing lower, this week looks to be ending positively for developed market equities at least. Emerging market regions have not fared as well in the week, from China to the UAE falling close to 3%. Gold steady at \$1853, the USD weaker against the GBP and Euro and Brent futures at \$117 a big move up for oil ahead of the summer driving season in the US. Cryptos have Bitcoin hovering around \$29000 and Ether at \$1767, both having fallen over 25% this month. Altcoins Ether, Solana and Avalanche have also fallen sharply with concerns around margin calls/ leveraging.

UAE indices have seen a recent pullback though yesterday the Dubai Index gained by a percent and the Abu Dhabi Index was flat. This is a yearly pattern as investors become complacent post dividend payouts in April and May. We stay positive on further gains into year end specially as oil prices are up and new issuance well received broadening the capital market. Dividend growth is strong specially in the banking sector. Economic growth is strong and the region continues to remain one of the most digitally advanced, adopting technology and host to the worlds first AI University in Abu Dhabi which is seen as a center of excellence on research in this area.

This morning equity indices in Asia are trading up from Japan to Hong Kong the latter supported by strong revenue growth numbers from Alibaba and Baidu. Are markets finding trading ranges after the extreme volatility we have seen recently? Rising inflation, rate hikes, supply-chain problems, and the Russia-Ukraine war have contributed to growing recession fears. However, while inflation in the US remains close to its highest level in forty years, market expectations of longer-term inflation have begun to ease. The five-year, five-year forward break-even rate, a gauge of inflation forecasts over five years, five years from today — fell on Wednesday to 2.2% from an eight-year high in mid-April. However, this is in tandem with a retail slowdown with major retailers Walmart and Target and social media group Snap's growth warnings. PMI's are still in expansion mode, but April numbers are lower than March. Yesterday macro data releases were mixed as jobless claims dipped, Q1 GDP were revised to a larger contraction than previously reported, pending home sales fell more than anticipated, and a read on regional manufacturing, the May Kansas City Fed Manufacturing Activity Index beat expectations. We expect volatility to continue into the summer but start settling down into Q3 as economic and corporate growth direction finds stability and certainty.

All 3 major US equity indices rose yesterday supported with earnings from chipmaker Nvidia, topping forecasts though lowering its revenue outlook and in the retail sector not all retailers are doing poorly with Macy's, Dollar General and Dollar Tree exceeding estimates and raising their guidance. In M&A news, Broadcom confirmed reports on acquiring VMware for \$61 bn. Today we get data on US April personal income and spending and the core PCE deflator.

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