



CIO OFFICE MORNING MARKET WRAP – 29th April, 2022.

Thursday was positive for most markets. Global equities gained +1.3% on average across developed markets, with the US standing out, closing +2.4% higher, while emerging markets were up +0.5% on average. Interest rates had a quiet session. The 10-year Treasury yield lost -1 basis points to 2.82% while the 5-year added +1 basis point to 2.84%. The price of Brent crude oil moved up +2% to \$107.5 and the US dollar continued to gain, adding +0.5% versus its trade-weighted counterparts.

Starting with economic data, US GDP for the first quarter of 2022 had a shocking annualized -1.4% contraction, yes, contraction, while the median expectation was for a +1% expansion. Looking at details, this unexpected drop was entirely due to a massive drag from net trade as well as, to some extent, slower inventory accumulation. The giant trade deficit causing the drag is about exports dropping -9.6% annualized, which shows some softness in non US growth, and more importantly imports surging at +20.5% annualized. Both were amplified by a very strong US dollar. Paradoxically, this suggests strength in the US economy, outperforming their trade counterparts, especially as growth of consumer spending, business investment and employment remained very robust in the first quarter. This explains why the data did not move markets in a significantly anti-cyclical way. Indeed, such a number is not likely to change anything to the Fed's normalization plans – core PCE inflation, one of the central bank's preferred measure of price pressure, was close to expectations at +5.2% compared to a year earlier, and the job market is tight. Other interesting economic data included a strong annualized +6.4% Q1 GDP growth in Taiwan, and a -14% plunge in exports from Hong-Kong in March.

The second important set of numbers was of course in the corporate world. Both Amazon and Apple shares fell in post-market trading after their Q1 earnings communication. Amazon revealed a surprise loss in Q1 and warned it could be in the red again this quarter, blaming rising costs in particular, despite the fact that consumer demand remains strong. Apple came with good news: record sales for a non-holiday quarter as well as an enormous \$90bn share buyback program. However, their forward-looking outlook was cautious due to chip shortages in particular as well as disruptions from the war in Ukraine. The same happened to Intel, with good Q1 numbers but a cautious forecast. We are in the most prolific part of the earnings season. Taking a snapshot on current numbers, with 40% of US companies and 28% of European ones having reported, results are so far very robust. Positive surprise compared to consensus expectation is on average +6% in the US and +9% in Europe. With falling stock markets, it confirms a clear improvement in equity valuations, which is not bad for future returns, assuming profits don't plunge in the coming quarters of course.

In other news, Joe Biden asked the US Congress to approve a \$33bn aid package for Ukraine, this amount being split between military, economic and humanitarian purposes, and importantly to be deployed through September, which confirms preparations for a long conflict. Meanwhile talks between Russia and Ukraine don't bear fruits and Western support keeps on being amplified with the clear goal to make the cost of war unbearable for Russia. Such a standoff is undoubtedly a dangerous game as Russia repeatedly warned against any interference: the situation remains unstable and fluid.

As we write this morning, US equity futures are lower due to heavyweights Apple and Amazon, but Asian markets don't care. While China's domestic markets are very modestly down -0.1% as Beijing confirmed its Zero Covid policy, all other stock indices are firmly in the green. The Nikkei gains +1.7%, followed by Hong-Kong at +1.2% and Korea and +0.8%. Interest rates and energy prices are quiet, hovering around yesterday's closing levels, while gold is regaining some shine at \$1904.

Today will see more Q1 GDP numbers being released for the Euro area as a whole and for its country members, which will also release monthly inflation numbers. So will the US with the core PCE deflator. Earnings season will keep analysts busy with for example Exxon, Chevron, PetroChina as well as AstraZeneca and BASF coming online. The week ahead will provide monthly ISM and PMI data for major countries and end with the US monthly job report on Friday. Please note that due to the upcoming Eid break, there will be no daily notes next week – our next issue is planned for Monday 9th of May. We wish you and your beloved a happy Eid Al-Fitr.

Stay safe.

Chief Investment Office
Wealth Management,
Emirates NBD.

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