



CIO OFFICE MORNING MARKET WRAP – 31st January, 2022. ALSO AVAILABLE ON ALEXA.

Volatility continues to be the main characteristic of 2022 so far. Last week was no exception, with exacerbated nervousity just after the post-FOMC press conference from the Fed. As we extensively commented, the outcome was clearly hawkish, with three layers of monetary tightening being confirmed: an accelerated end of asset purchases, interest rates hikes, and a reduction of the balance-sheet. Volatility is indeed serious: out of the 5 largest intraday swings of stock markets of the last decade, 3 already happened in 2022.

All major asset classes delivered negative weekly returns. The fixed income space lost between -0.5% and -1.2%, with rising interest rates and tightening spreads, while stocks lost around -4% in emerging markets and -2% in developed. The latter were heading for a worse number, before another sharp change of direction during the last hours of Friday's US trading session. Interest rates were also down during the last day of the week. The US 10-year Treasury yield closed at 1.77%, which compares to 1.61% for the 5-year and 2.07% for the 30 year. Oil prices pushed materially higher with the barrel of Brent crude oil trading at \$90.6. Gold finally lost its shine and closed -2.4% lower for the week, joining other asset classes in the YTD negative territory.

Between the earnings season, economic data and speeches from central bank officials, there is no shortage of market moving news. Starting with the latter, Atlanta Fed Chief Raphael Bostic said to the Financial Times that the US central bank could consider hiking rates by as much as 50 basis points in March, depending on the state of the economy. It is not his central scenario, but of course such a statement only adds to the overall uncertainty. Goldman Sachs now predicts 5 hikes of 25 basis points

each for 2022 alone. With regards to economic data, China official PMI numbers were released on Saturday: both manufacturing and services activity were 0.1 point better than expectations, pointing to a marginal expansion, at respectively 50.1 and 51.1. On the geopolitical front, their turbulent ally North Korea is suspected to have tested yesterday a large ballistic missile of intermediate range, ending its course close to Japan's exclusive economic zone.

As we write this morning however, stock markets in Asia are not impressed, and benefit from the better mood of Friday's US close. Most indices are up, with the tech sector particularly well oriented. South Korea leads with a +1.8% gain, followed by Hong-Kong at +1.2% and Japan at +1%. China's domestic markets are closed for the Lunar New Year Holiday. Interest rates are marginally higher, with the US 10-year stabilizing just below 1.80%. Oil prices show no pause, with the future contracts on the Brent trading above \$91 – the tensions around Ukraine and the possible sanctions against Russia certainly explain. The dollar is little changed and gold is slightly lower at \$1787, while its digital competitors are in the red. Bitcoin is down -2% at \$37,000.

In the coming days -and weeks, market participants will have to gauge the level of aggressiveness of the Fed, and take a stance on whether January is the beginning of a bear market, or a welcome correction. We tend to lean towards the latter, but would certainly not make any short-term prediction with regards to market direction. A holistic and fast monetary tightening is a serious disruption, and to some extent, is as experimental as was the holistic and fast deployment of the extraordinary monetary support of the recent years. We are not unhappy with our relatively neutral positioning, but of course consider the current normalization of equity valuations as clear positive. Upcoming quarterly earnings from companies should add to this trend. The week ahead will include numbers from the internet giants Alphabet, Amazon, and Meta Platforms (better known as Facebook) as well.

It's a busy week on all fronts. PMIs for January will be released for major economies, as well as the Euro zone quarterly GDP. The ECB and the Bank of England will hold their committees on rates, and the OPEC+ will meet on oil output Wednesday, with the \$90 mark on Brent as a backdrop. The week will end with the US job report, and the Winter Olympics will kick off in China. On our side, we will have the pleasure to welcome you at our Global Investment Outlook webinar next week on Wednesday 9th to share our views on "The Year of Low Visibility".

Stay safe.

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