



CIO OFFICE MORNING MARKET WRAP – Thursday March 31, 2022. ALSO AVAILABLE ON ALEXA

Asian markets are trading down a percent this morning, across the board from Japan to Hong Kong and domestic China shares following a broadly positive day yesterday. Once again in focus are China real estate defaults and its tech sector. Whilst global equities closed down marginally -0.3%, US and European markets fell more yesterday, reversing partly the past few days spectacular gains. There is no visibility in de-escalation on the Russia Ukraine conflict and the peace talks have not yet resulted in any concrete action on withdrawal of Russian troops from Ukraine. In the UAE, the Dubai markets had another positive day and the MSCI UAE index is +20% compared to Global equities down 4% ytd. UAE markets which are seeing successful capital issuance and broadening should maintain these gains.

Oil prices continue in +/- 5% intraday moves with Brent futures trading down at \$108/barrel this morning. Oil prices have almost doubled in the past year. The Biden administration is considering a massive release of crude from U.S. reserves of up to a million barrels a day. Gold is steady at \$1,927.52 and the crypto rally continues with Bitcoin flat year to date.

This morning The 10 year US Treasury yield is at 2.33% and the 2 year at 2.29%, slightly lower than the day before. U.S. treasuries, a \$23tn market could have their worst quarter since 1973 after the Fed raised interest rates for the first time since 2018. Also the contiguous tapering program reducing liquidity and more recently the conflict in Ukraine has prompted sharp volatility in Treasuries. The 10 year yield has seen a low of 1.17% and a high of 2.47% in the last one year. On Tuesday the 2/ 10s yield curve briefly inverted, a closely watched recession signal. Typically, a recession has followed in the two years after an inversion of the yield curve as the Fed's efforts to bring down inflation by raising rates could affect US economic activity. There are no signs as yet of a slowing economy. The labour market has had strong jobs growth reported in recent months and real estate i.e. housing prices are growing at 20% y/y.

In terms of risks to markets whether it is COVID lockdowns, the Russia Ukraine conflict result of constrained supply chains or the outsized consumer demand created by government stimulus it is the impact of rising inflation that is the most worrying. Higher fuel and food costs are the primary concern with real wage growth questionable. Inflation, which is running at its highest level in 40 years in the US is also at multi year highs in Europe and many Asian economies. The rising price of semiconductors, lithium and nickel is affecting the global auto industry. Baby formula, wheat and sunflower oil are in short supply. The war has affected supplies of oil, gas, potash, from Russia and Ukraine, worsening the inflation outlook. Quoting from the FT: Carmen Reinhart, the World Bank's chief economist and a leading scholar on financial crises, warns that "contagion works in mysterious ways" and remains concerned that the ripple effects from Russia's invasion of Ukraine could be huge. The share of advanced economies with inflation rates above 5% or higher has climbed from zero a year ago to almost 60% in February 2022, even before the full impact of the invasion has been measured.

OPEC+ meets today to discuss production targets and we get the U.S. jobs report on Friday. Stay safe.

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