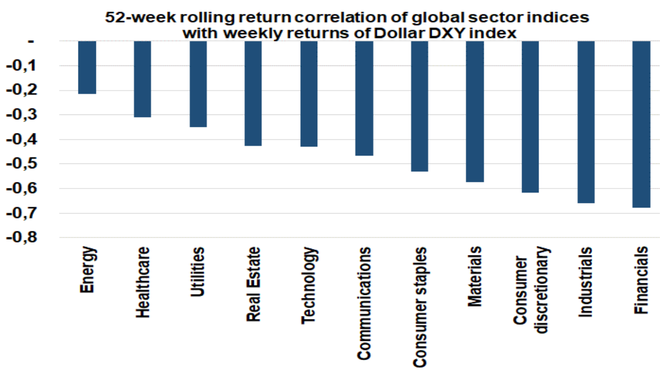
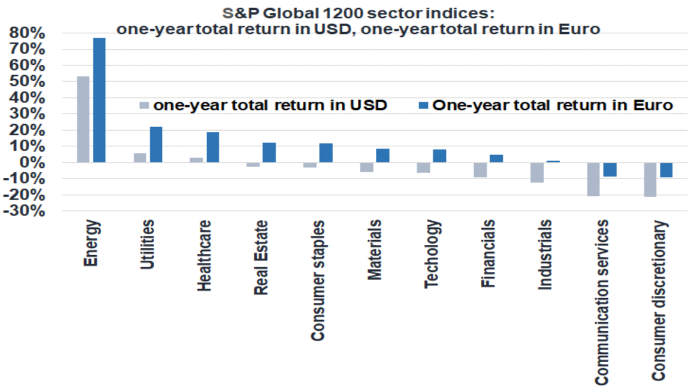
Global Markets Minesweeper

May 20, 2022

Global Markets Analysis
INVESTMENT PORTFOLIOS
MANAGEMENT DIVISION

The market action since late last week and during the current week may indicate that market participants are “grappling” with uncertainty about which of the “worries” being evident during 2022 will continue to have “material” market impact going forward versus which of the “worries” will probably ease. A key “worry” at the end of 2021, was that annual returns in main markets had been “unreasonably” high. For example, the annual total return of the S&P Global 1200 equity index at the end of 2021 was 21.5% in USD (30.5% in euro terms) more than double the 30-year average (9.8% in USD). In the US, the S&P 500 index had annual total return of 28.7% in USD at the end of 2021 (38% in euro), almost triple the historic average (1928-2021 annualized equivalent: 9.7% in USD). The “reasonable” mean-reversion path of moderating the exceptionally high rolling annual returns at the end of 2021, involved negative year to date returns as of mid-May 2022. On rolling basis, main indices (the world equity, the S&P 500 and the Stoxx 600 Europe index) had maintained positive (but gradually lower) one-year total returns until late-April 2022. Specifically, the rolling one-year total return of the S&P Global 1200 (in USD) gradually moderated from 21.5% at the end of 2021 to 16.8% at the end of January 2022, to 10.9% at the end of February, to 10% at the end of March (mean reversion to long-term average), while it turned negative at the end of April. Currently, the one-year total return of the S&P Global 1200 index is at -7.1% in USD (19/5/21-19/5/22). The strength of the Dollar, partly due to Fed tightening and partly due to geopolitics, may have been an additional obstacle for risk-taking in 2022 so far. The 52-week return correlations of all the main eleven global sector indices with the Dollar DXY weekly return have been negative (less negative for energy, healthcare and utilities). While mean-reversion and strong dollar, may have been two of the points, that dragged one-year returns towards negative area in USD terms by the end of April, some elements of resiliency are still evident in global equity markets. For euro-based investors, the annual total return of the S&P Global equity index is positive (19/5/21-19/5/22 in euro: +7.2%). As of May 19, 2022, the nine of the eleven global sector indices exhibit positive one-year total return in euro. In the US, the S&P 500 is also positive on annual basis in euro terms (+10.8%) and the Stoxx 600 Europe index (+1.4%).





Source: Bloomberg

Another key “worry” at the end of 2021, was that of elevated valuations. The P/E 12-month forward ratio of the S&P Global 1200 index was at 18.5 times at the end of 2021, which “corrected” considerably and is currently (19/5) milder (14.5 times) than the 10-year average (15.5). However, key worries remain, including geopolitics, elevated oil price and high inflation. Regarding recent macroeconomic figures, **Eurozone** GDP increased on quarterly basis in the first quarter by 0.3% and on yearly basis by 5.1%. **US** industrial production has risen on monthly basis in April by more (1.1%) than expected (0.5%) and yearly by more (6.4%) than historic average (1920-2022: 3.6%).

The week ahead

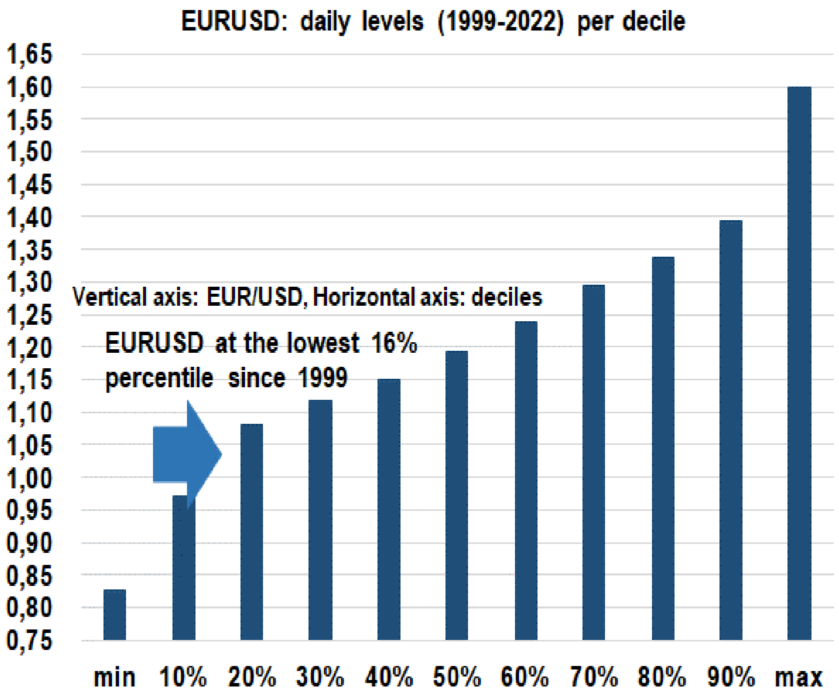
German IFO index is expected (23/5) slightly lower in May. **Eurozone** manufacturing PMI (24/5) may have mildly declined, while the services PMI may have slightly increased in May (24/5). In the **US**, the minutes of the Fed meeting in May (4/5) will be released (25/5). The revised US GDP estimate for the first quarter is expected on May 26. Inflation figures (PCE measures) for April (27/5) may exhibit slight moderation of inflation pressures.

Quote of the Week:

The Fed’s President said: “If the Fed doesn’t see clear and convincing evidence of lower inflation pressures, then it may consider more aggressive tightening of monetary policy. If the Fed sees inflation moderating, then it can consider slower pace of tightening”.

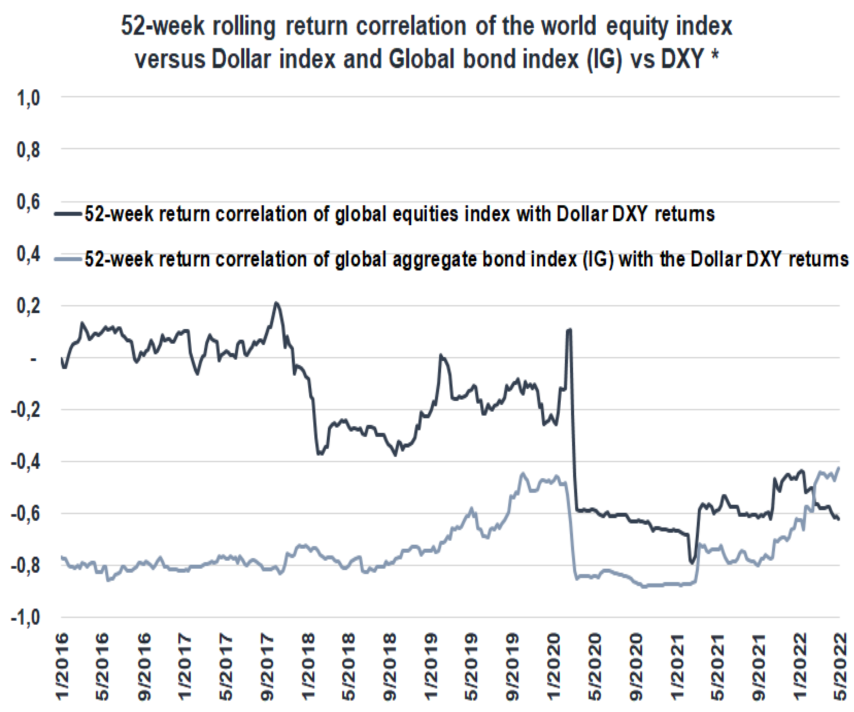
Global Markets in Charts

The Euro has recently dropped versus the USD at a low (13/5: $1.0350) since January 2017



The spread of German-US 2-year yields is at -2.25% versus -1.45% (three-year average), favouring the USD, which has strengthened also due to geopolitics. EUR/USD dropped at a low (13/5: $1.0350) since January 2017, while support is at the area of $1.00 (76.4% Fibonacci retracement of the move from $0.8230 in October 2000 to $1.6038 in July 2008). In the history of the Eurozone, the current level of the EUR/USD (20/5: $1.0550) stands at the lowest 16% percentile. If the geopolitical tension eases and if the WTI crude oil does not rise further above the area of $124/barrel (8/3 close) - $130/barrel (7/3 intraday) on-average, then inflation may peak and start moderating. In such case, the Fed may not need to hike the rate considerably above the 2.5% area (2.5% was the peak rate in the 4th quarter of 2018 and the highest in 14 years). In such a set of conditions, the Euro may react towards the resistance area of $1.0750-$1.1000.

The "strong Dollar" has been a "brake" for risk-taking year to date



*52-week rolling return correlation of the S&P Global 1200 index in USD versus Dollar DXY index and return correlation of the Bloomberg Barclays global bond index (IG) in USD versus DXY (Dollar weighted index of the USD versus six main currencies)

Source: Bloomberg

The 52-week return correlation of the world equity index with the Dollar DXY index weekly returns is negative (-0.63), indicating the most inverse relation of dollar and global equities since early 2021. The strength of the Dollar has probably acted as a "brake" for global equities year to date. The 52-week return correlation of the global aggregate bond index (IG) with the Dollar DXY is also negative, while milder (-0.43%). In 1985, in an environment of elevated inflation, Fed tightening and strong Dollar, the US, the UK, West Germany, France and Japan had coordinated actions in order to weaken the Dollar. Currently, such a coordination may not happen, as it is considered as too "interventionist". US finance minister said that the US is committed to market determined exchange rate, but will inform other countries about US policies. It is not be excluded that the Fed will calibrate its policy after July, so that the advance of the Dollar can be halted.

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Event Risk Calendar, 23- 27 May 2022

		Monday 23/5				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
23/5 11:00	GE	IFO Business Climate	May	91	91.8	
23/5 11:00	GE	IFO Current Assessment	May	97.3	97.2	
23/5 11:00	GE	IFO Expectations	May	85.5	86.7	
23/5 15:30	US	Chicago Fed Nat Activity Index	Apr		0.44	
Eco Event	EC	ECB's Villeroy, IMF's Georgieva speak in Davos (17:30)				
	US	Fed's Bostic discusses the economic outlook in Atlanta (19:00)				
		Tuesday 24/5				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
24/5 03:30	JN	Jibun Bank Japan PMI Services	May P		50.7	
24/5 03:30	JN	Jibun Bank Japan PMI Mfg	May P		53.5	
24/5 10:30	GE	Germany Manufacturing PMI	May P	54	54.6	
24/5 10:30	GE	Germany Services PMI	May P	57.4	57.6	
24/5 10:30	GE	Germany Composite PMI	May P	53.5	54.3	
24/5 11:00	EC	Eurozone Manufacturing PMI	May P	55	55.5	
24/5 11:00	EC	Eurozone Services PMI	May P	58.0	57.7	
24/5 11:00	EC	Eurozone Composite PMI	May P	55.8	55.8	
24/5 11:30	UK	UK Manufacturing PMI	May P	55.2	55.8	
24/5 11:30	UK	UK Services PMI	May P	58.0	58.9	
24/5 11:30	UK	UK Composite PMI	May P	55.0	58.2	
24/5 16:45	US	US Manufacturing PMI	May P	57.9	59.2	
24/5 16:45	US	US Services PMI	May P	55.2	55.6	
24/5 17:00	US	Richmond Fed Manufact. Index	May	9	14	
24/5 17:00	US	New Home Sales (MoM)	Apr	-1.70%	-8.60%	
		Wednesday 25/5				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
25/5 08:00	JN	Leading Index CI	Mar F	101	101	
25/5 09:00	GE	GfK Consumer Confidence	Jun	-25.5	-26.5	
25/5 09:00	GE	GDP NSA (YoY)	1Q F	4.00%	4.00%	
25/5 09:00	GE	GDP WDA (YoY)	1Q F	3.70%	3.70%	
25/5 15:30	US	Durable Goods Orders	Apr P	0.60%	1.10%	
25/5 15:30	US	Durables Ex Transportation	Apr P	0.60%	1.40%	
Eco Event	EC	ECB's Lagarde speaks in Davos (11:00)				
	EC	ECB Publishes Finance Stability Review				
	US	FOMC Meeting Minutes (21:00)				

		Thursday 26/5				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
26/5 02:50	JN	PPI Services (YoY)	Apr	1.50%	1.30%	
26/5 15:30	US	GDP Annualized (QoQ)	1Q S	-1.30%	-1.40%	
26/5 15:30	US	GDP Price Index	1Q S	8.00%	8.00%	
26/5 15:30	US	Initial Jobless Claims	21-May		218k	
26/5 17:00	US	Pending Home Sales (MoM)	Apr	-1.80%	-1.20%	
26/5 18:00	US	Kansas City Fed Manf. Activity	May		25	
		Friday 27/5				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
27/5 02:30	JN	Tokyo CPI (YoY)	May	2.50%	2.40%	
27/5 02:30	JN	Tokyo CPI Ex-Fresh Food (YoY)	May	2.00%	1.90%	
27/5 04:30	CH	Industrial Profits YTD (YoY)	Apr		8.50%	
27/5 11:00	EC	M3 Money Supply (YoY)	Apr	6.20%	6.30%	
27/5 15:30	US	Advance Goods Trade Balance	Apr	-$115.0b	-$127.1b	
27/5 15:30	US	Wholesale Inventories (MoM)	Apr P		2.30%	
27/5 15:30	US	PCE Deflator (MoM)	Apr	0.20%	0.90%	
27/5 15:30	US	PCE Deflator (YoY)	Apr	6.30%	6.60%	
27/5 15:30	US	PCE Core Deflator (MoM)	Apr	0.30%	0.30%	
27/5 15:30	US	PCE Core Deflator (YoY)	Apr	4.90%	5.20%	
27/5 17:00	US	U. of Mich. Sentiment	May F	59.1	59.1	

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