Key Take-Aways

- January global market was hammered by rising interest rate, creating high volatility and dispersion. The Nasdaq made its worst start since 2008 as the S&P since 2009.

- Rising interest rate environment was beneficial for Energy and Financial sectors but pushed bond indices in the negative sector.

- January 26th Fed Meeting was characterized by a clear hawkish bias and the announcement of a quantitative tightening. Which could let the door open for more rate hikes by the end of next quarter.

- Global economy outlook remains positive globally. Economic growth is currently observed. However some new signals coming from IMF and Retail Sales could suggest that US activity will decelerate more than anticipated in the coming months.

- Compared to September 2021, the Treasury Yield curve has shifted upwards, the curve flattened while the long term end of the curve is now inverted.

- Markets are focused on inflation, with levels not seen in 40 years in the U.S.. Pushing tech and growth stocks with high earnings in the red.

- Concerns over the Corona virus, inflation and interest rates have increased incertitude on equity markets. History suggests that 2021 momentum should continue over this year. Investor's fear of inflation could change the trend.

- Equity sector is entering earnings season. If analysts start to lower their expectations it could accentuate the January downward trend creating new pressure particularly on Nasdaq listed stocks.

- Regarding Forex, we can witness a new conundrum with lower USD caused by sector rotation out of tech and to grow into commodity and more cyclical sectors.

- Oil is rising linked to political tensions between Ukraine and Russia in addition to lagging supply, which is reaching levels not seen since 2014.

Review: January 2022

The tone is set: Volatility and Dispersion.

January has set the tone for the rest of the year: volatility and dispersion.

The hawkish rhetoric of the Fed at the end of 2021, with the prospect of monetary tightening and higher interest rates, sent markets plunging.
Jerome Powell's hawkish speech on January 21, which opened the door to five rate hikes in 2022 and emphasized the fact that the Fed and the market will be dependent on economic data, added a layer to market stress. This made January the worst start to the year for the Nasdaq since 2008 and 2009 for the S&P500.

The S&P500 closed the month down -5.17%, the Nasdaq down -8.49%, after touching -14.17% on January 27 and the Russell 2000, down -9.63%.
The Eurostoxx50 finished the month at -2.74%, the Nikkei at -6.21% and the SMI at -5.04%. It is worth noting that the UK market ended up 1.12%.

In terms of U.S. sectors, best performance came from the energy sector, which finished very strongly, up at 19.10%, followed by financials, at +0.06%. All other sectors finished in the red, with consumer discretionary at -9.68%, followed by real estate at -8.50% and information technology at -6.89%.

The dollar index closed the month at 96.54 (+0.91%), the EUR/USD pair depreciated by -1.19%, USD/CHF -1.57% and GBP/USD -0.63%. Only the Yen remained stable at -0.03%.
It is important to note that emerging currencies were resilient. Led by the Brazilian real, which appreciated by 4.76%.

Unsurprisingly, the US 10-year yield rose by 26 basis points, ending the month at 1.777%. The bund yield rose 18bps, ending January at 0.011%. The prospect of rising rates pushed bond indices into negative territory, with the Bloomberg Global Aggregate ending the month at -2.05%, the JPMorgan EMBI at -2.89%, the Bloomberg Global High Yield Index at -2.54% and the Bloomberg Core Government Index at -1.91%.

Commodities continued to rise, with the Bloomberg Commodity Index up +8.77%. Driven by energy, with natural gas up a spectacular +37.03%, followed by WTI up +17.21%.

Volatility closed January at 24.83 (+44.19%) after peaking at 31.96 (+85.08%) on January 26.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4,516	0.98	1.48	-5.17	-5.17	-5.17	18
Nasdaq	14,930	2.19	1.56	-8.49	-8.49	-8.49	24
Russell 2000	2,028	1.97	-1.29	-9.63	-9.63	-9.63	18
Euro Stoxx 50	4,175	0.91	2.97	-2.88	-2.88	-2.88	14
Stoxx 600 EUR	469	0.72	2.74	-3.88	-3.88	-3.88	14
FTSE 100	7,464	-0.02	2.29	1.08	1.08	1.08	12
SMI	12,227	1.01	2.91	-5.04	-5.04	-5.04	16
NIKKEI 225	27,002	1.07	-2.13	0.00	-6.22	-6.22	15
CSI 300 China	4,564	-1.21	-4.51	0.00	-7.62	-7.62	12
MSCI EM Index	1,208	-0.08	-2.54	-1.90	-1.90	-1.90	11

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4,516	0.98	1.48	-5.17	-5.17	-5.17	18
UTILITIES	352	1.24	0.90	-3.27	-3.27	-3.27	19
ENERGY	503	0.27	4.72	19.10	19.10	19.10	13
TELECOM	250	1.31	1.42	-6.21	-6.21	-6.21	16
CONS STAPLES	792	0.10	0.02	-1.37	-1.37	-1.37	20
REAL ESTATE	297	0.37	-0.01	-8.50	-8.50	-8.50	41
CONS DISCRET	1,454	2.64	0.43	-9.68	-9.68	-9.68	22
MATERIALS	531	0.71	-0.25	-6.85	-6.85	-6.85	16
HEALTH CARE	1,530	0.01	1.10	-6.76	-6.76	-6.76	16
INFO TECH	2,844	1.39	3.34	-6.89	-6.89	-6.89	24
FINANCIALS	650	0.28	1.36	0.06	0.06	0.06	13
INDUSTRIALS	852	0.20	-1.80	-4.73	-4.73	-4.73	17

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	96,755	-0,53	0,87	1,13	1,13	1,13
EUR-USD	1,1216	0,58	-0,97	-1,35	-1,35	-1,35
USD-JPY	115,19	-0,06	1,08	0,10	0,10	0,10
USD-CHF	0,9304	-0,01	1,79	1,88	1,88	1,88
EUR-CHF	1,0435	0,53	0,82	0,57	0,57	0,57
GBP-USD	1,3430	0,22	-0,43	-0,75	-0,75	-0,75
EUR-GBP	0,8351	0,34	-0,55	-0,74	-0,74	-0,74
JP EM FX Index	53,24	0,86	0,54	1,29	1,29	1,29

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	1,79	2	2	28	28	28
Germany	0,01	6	12	19	19	19
UK	1,30	6	18	33	33	33
SWITZERLAND	0,10	5	10	23	23	23
Japan	0,18	1	4	11	11	11
US IG Spread	116	2	7	16	16	16
US High Yield spread	353	17	46	83	83	83
EUR High Yield spread	393	14	17	45	45	45

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	107,9	0,32	2,74	8,77	8,77	8,77
Gold Spot $/OZ	1795,7	0,23	-2,57	-1,83	-1,83	-1,83
Crude Oil WTI	87,5	0,78	4,03	13,65	13,65	13,65

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	24,8	-1,79	-4,03	44,19	44,19	44,19

Source: Bloomberg 31.01.2022

Macro and Rates: With no doubts, the Fed is Hawkish

The US Federal Reserve confirmed during its meeting on January 26, three layers of tightening: an accelerated end to asset purchases, rates hikes and a reduction of its balance-sheet.

Fed Chair Jerome Powell's announcements were more or less in line with expectations. However, the statement and the rhetoric during the press-conference suggest a clear hawkish bias. Despite market correction during the month, the statement noted that financial conditions remain accommodative. The absence of wording such as "gradual" or "measured" suggests the FOMC is ready to pull the trigger, leaving the door opened for the possibility of a 50 bps point hike in March, depending on the economic situation. The Fed also announced a reduction of its balance-sheet (quantitative tightening) by mid-year starting with a faster reduction pace in Mortgage Back Securities (MBS) that could, in our view negatively impact the spread on both the Agency and Non-Agency MBS. With now 5 rate hikes priced-in, financial markets have to take into account that every USD 100 billion reduction in the balance-sheet equates to a 5 bps rate hikes.

Economic growth and activity remains broadly strong around the world. Global outlook remains constructive. World economy will likely be able to absorb rates and balance-sheet normalization. However, we recently observed some signals, especially in the US, that activity could decelerate more than anticipated. Inflation, Omicron or higher rate expectations; it is still unclear which one of those three factors is really responsible of those early weakening signals.

The International Monetary Fund (IMF) has recently reduced its world GDP growth forecast for 2022, to +4.4% from +4.9% three months ago. US and China GDP growth forecast have been lowered the most, respectively to +4% from +5.2% and +4.8% from +5.6% back in October.

In the US, Retail Sales surprised sharply on the downside. December's report came in way below expectations across all aggregates. Headline Retail Sales fell -1.9%, with the ex-auto component at -2.3%, and control -3.1% spells an ugly month of retail activity. Throw in a few downside revisions and the figures look even worse. In honesty, it's hard to know how much of this represents an inflation squeeze or how much represents front-loaded consumption. However, we cannot say it was down to Omicron as Non-store (ie online) sales activity plunged -8.7%.

US Q4 GDP growth can also raise questions. The Headline data exceeded expectations, rising to 6.9% versus an expected 5.5%. However, this was largely a function of inventory rebuilding; inventories contributed 4.9% to growth, the second-most of any quarter since the late 1980s. Overall, the rise in inventories suggests somewhat less of a growth tailwind moving forwards, until and unless consumption drives them back down again.

Monetary policy normalization is a crucial moment in an economic cycle and the current cycle that began with the Covid pandemic is out of the ordinary to say the least. Given the current global macro-economic picture, we expect financial markets to digest this normalization. Of course, some rate sensitive sectors and companies have already been repriced from elevated valuation and we cannot affirm the correction is behind us.

The fast deployment of support over recent years now requires a fast monetary tightening that can be perceived as disruptive and experimental. Given inflation pressures which are less transitory than expected, The Fed seems to have adopted a «more now, less later» approach. Indeed, after some turbulence post Fed-meeting, the market is now anticipating stable Fed Fund rate from December 2023 to December 2026. While a stabilization of terminal rate expectations may not be sufficient, it is certainly a necessary prerequesite for a sustainable rebound.

This extraordinary monetary policy cycle that is about to start will for sure fuel volatility and we expect this volatile environment to carry on this year. To illustrate that, we already observed in January 2022, 3 out of the 5 largest intraday swings of the last decade. And there is little doubt that the standoff with Russia over Ukraine will add a touch of volatility.

Fixed Income: Watch the spreads

January was marked by a quick rise in Treasury yields which took equity markets off-guard. The 2-year Treasury yield, for example, rose from 0.73% at the end of 2021 to 1.21% at the end of January. It was 0.1% in February 2021.

Compared to September of 2021, the entire Treasury yield curve has shifted upwards. The movement was strongest in the "belly" of the curve, i.e. the 1 to 7 year maturities, where yields rose by almost 100bps. The curve has flattened and at the long end the curve is now inverted.

Clearly the market focus shifted to inflation. Recently published numbers such as the CPI YoY at 7% showed that inflation in the US has reached levels not seen in 40 years. Sectors with "high duration earnings" such as tech and growth stocks in general were hit hard.

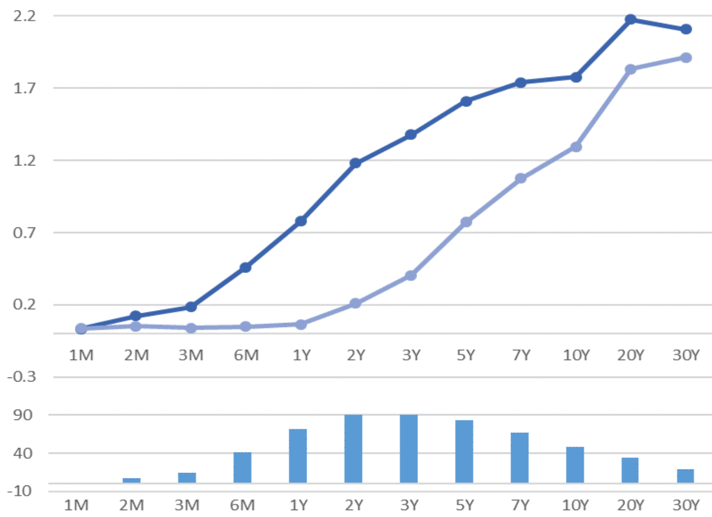
In this context, all eyes were on the Fed. As widely expected, the Fed hinted a first rate hike in March. Apart from that, it left all doors open. Especially a more hawkish path in 2022 including quicker quantitative tapering is now clearly on the table. Given the volte-face of the Fed regarding its assessment of inflation and policy, volatility in risky assets rose sharply. Investors are still struggling to figure out "what to do" with all these uncertainties.

The next inflation figures as well as the evolution of the pandemic and the supply-chain bottlenecks which it creates will determine the future path of monetary policy. Several forward looking indicators such as 5-year forward inflation expectations point to falling inflation. Google searches relating to inflation in North America have also fallen. If we are around "peak inflation", then yields could well stabilize or even fall again.

Another noteworthy development is the rise in credit spreads. Both investment grade (116bps, up 73bps from 2021 lows) and high-yield (340bps, up 120bps) have widened continuously since the beginning of the year. We see further widening as a real risk going forward.

We continue to believe that there is some value in the "belly" of the Treasury curve. We also think that diversification into EM hard and local currency bonds at these levels makes sense, especially if the USD should depreciate. Finally, we like floating rate notes.

US Treasury yield curve shift 1.9.2021 vs 31.1.2022

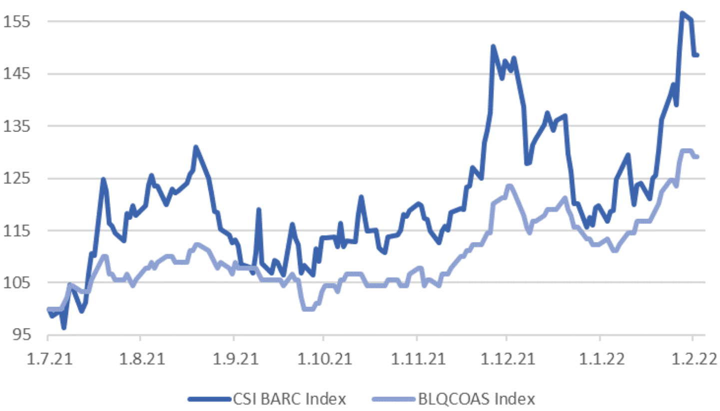


Source: Bloomberg

US Fed of St Louis 5-year Forward Inflation Expectation Rate

Source: Bloomberg

US Investment Grade and HY spreads, rebased 100 as of 1.7.21



Source: Bloomberg

Equity: The battle for transitional inflation is not over and remains at the center of the stock market's uncertainties

For early 2022, uncertainties on growth caused by the Omicron variant and the US fiscal situation are expected to limit market direction. After the markets recorded some of the biggest gains of the last 20 years in 2021 what can investors expect ?

The S&P ended 2021 up 27% (29% with dividends) with a volatility of 13%. The strongest drawdown on the 2021 S&P was only 5%... Except for 2017 it is the lowest in 25 years. Another important fact is that S&P outperformed Nasdaq by 120 bps.

For over a year now, markets have moved into an uptrend channel. History suggests that momentum should continue in 2022, but investors may also face more stress in the coming year due to a series of concerns about coronavirus, inflation, and interest rates, as well as foreign and national policy. Last week S&P rose to an all-time high (4818) before closing down 3% in the first week of the year. Historically a negative return first-week of the year is rare and always has been followed by negative returns throughout the year.

Will investors really act that inflation has become more structural ?

Inflation in Europe continue with provisional German figures for the month of December which accelerate again year-on-year to 5,3%, confirming the thesis that inflationary pressures will remain strong in the coming months. In the United States, the situation remains the same. The supply chain situation will continue to be a problem for some time yet with no consensus on whether the situation will continue or improve. Investors are cautious about the US central bank's decision to tighten monetary policy faster.

Since the end of September, there has been a considerable divergence in the NASDAQ Composite. The index soared, while profit estimates for 2022 and 2023 fell sharply. This divergence has led the index price-to-earnings ratio to its highest levels last year and put the NASDAQ in a precarious position.

We are now entering the profit season period for the next two weeks, during which analysts generally update their valuation and pricing targets on individual companies. It is likely that sales analysts are starting to update their models and therefore their targets scores and objectives. This could lead to a drop in profit estimates if analysts start to lower their expectations and add additional pressure on NASDAQ profits, which are already on a downward trend.

For the time being, The index is trading at a PE ratio of approximately 30 times the profit estimates for 2022. This PE ratio is up from the beginning of October. Meanwhile, profit estimates have fallen by 5% compared to a peak at the end of August. The most complex is the Fed and its plans to end quantitative easing, raise rates and begin the process of balance sheet reduction.

The last minute FOMC of the December meeting revealed that the process could start much earlier than planned. This caused nominal and real yields to skyrocket, a blow to the bullish narrative based on the history of low yields, which contributed to the excessively exuberant rise in many of the technology and growth values that NASDAQ encompasses.,

We remain constructive on the equity markets, with a value bias for European market and cyclical values of good qualities. Financial companies (SX7E) as well as Energy companies (SXEP) offer an important beta in this economic context we have. We remain cautious in emerging market for the next month in the scenario of rising interest rates.

Forex And Commodities: Is Rising Interest Rates Becoming Bad For Dollar ?

A new conundrum is observed on FX market: the USD is failing despite Fed tightening policies (hawkishness) and rising interest rate.

The Dollar Index finished the month at 96.54 level, a slightly higher-level vs end of 2021 (+0.91%), despite some episode of important volatility. However, with the current market environment of rising US interest rates, a higher momentum on the greenback should have been observed. This surprising weak response of the dollar despite the tightening Fed policy could be the result of the current sector rotation out of the tech and growth into commodities and cyclical sector. This rotation is partially the consequence of the rebound of post pandemic. As a matter of fact, 9 months ago, the US had a current account deficit in their balance of payment; foreigners were sterilizing this deficit by buying US stocks heavily driven by tech and growth instead of buying US treasury. Now, with the rebound the investors are switching their view on stocks with more cyclical name that are not well represented on the US market and indices. As the biggest advantage for USD are growth stocks (majority represented in the S&P index) and that the US has been balancing its current account deficit via foreign flows into US tech and growth stock, this rotation could undoubtable put even more downside pressure on the greenback in the upcoming weeks.

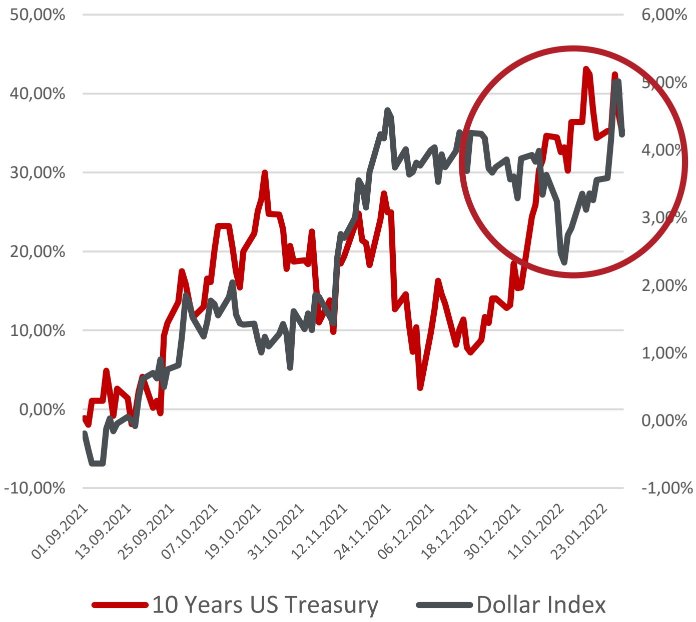
Capital flow should flow out of the US into market more exposed to commodities and cyclical stocks (typically Emerging market sector). This release valve will be likely beneficiary for commodities, gold and EM currencies (relative to USD).

Safe haven currencies, such as CHF and JPY shouldn't be directly impacted by rotations, they will naturally beneficiated from a weakened USD.

Regarding Oil, the prices rose as geopolitical tensions in the Ukraine and Russia added to worries about tight supply, sending shares of energy companies up. Brent crude prices gained 13.65% to USD 87.50, hitting its highest settle value since October 2014. Oil prices have been generally moving higher as the latest surge of Covid-19 cases failed to dent demand for the commodity. The Organization of the Petroleum Exporting Countries raised its demand estimate by 260,000 barrels a day for the fourth quarter of 2021, reflecting the stronger-than-expected consumption. That has helped push energy stocks up 18% over the first weeks of the year, while most other sectors of the S&P 500 are in the red.

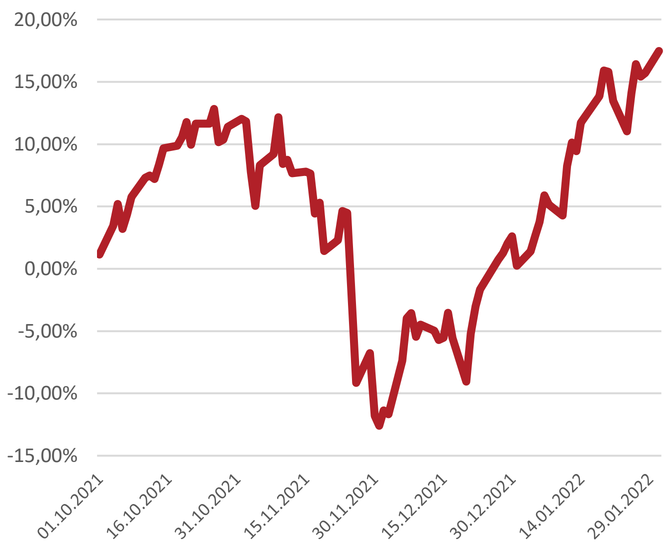
Source: Bloomberg , WSJ, FFTT, LLC

US Dollar Index VS 10 Y US Treasury: End of Correlation ?



Source: Bloomberg

Crude Oil Momentum



Source: Bloomberg

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