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MARKETS START TO PRICE A FED LIFT-OFF AS EARLY AS MARCH

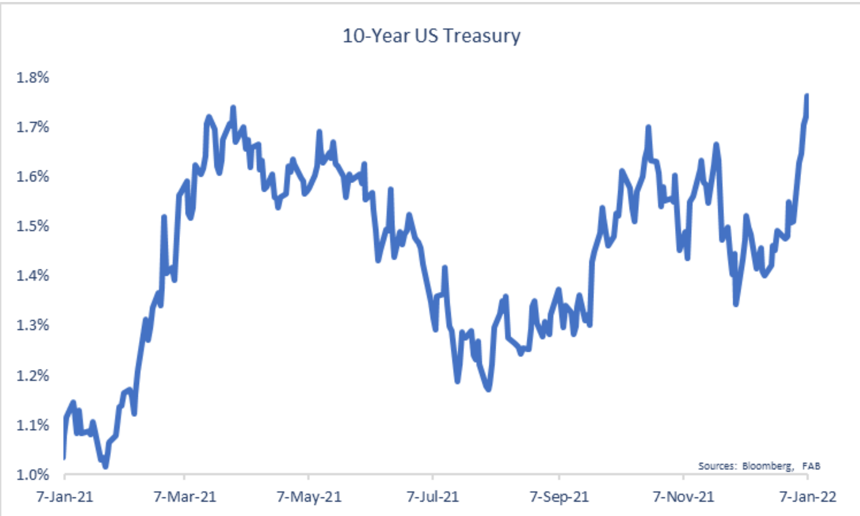
January 10th 2022

- The yield on 10-year US Treasuries spiked 25 basis points in a week
- The US jobs report on Friday added to the argument in favour of hiking rates soon
- Rising bond yields are prompting a repricing of some high-multiple stocks
- Value stocks have started the year outperforming their growth peers

The first effective week of trading of 2022 was hardly one to celebrate. Both bonds and stocks of companies which sport high expected price-to-earnings multiples have undergone a swift correction. The move accelerated after the Fed minutes showed many voting members favoured starting to hike rates as early as March, which some speakers repeated in their remarks.

A weaker-than-expected December jobs print on Friday was not enough to counter the argument for an imminent Fed lift-off as the US unemployment rate fell below the 4% the Fed unofficially targets. This week a potentially high inflation number in the US is likely to continue the trend. At this rate, however, some of the assets being sold off could soon start looking attractive.

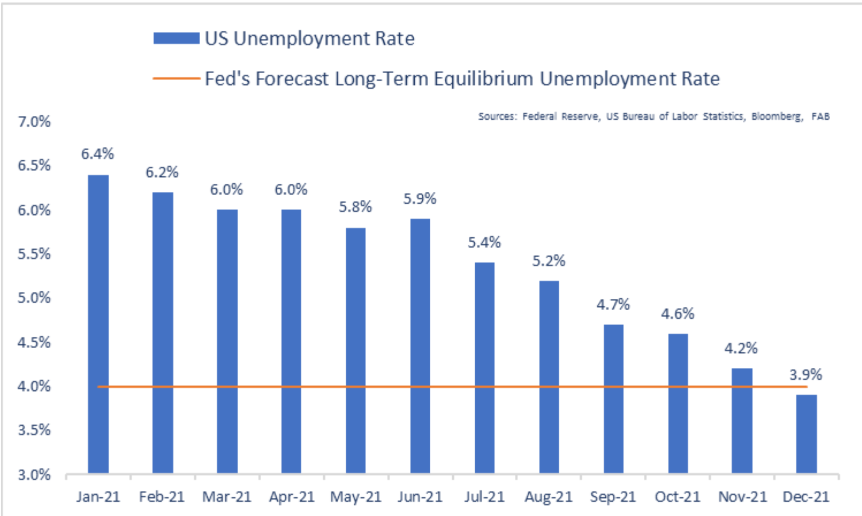
THE YIELD ON 10-YEAR US TREASURIES HIT 1.76%, THE HIGHEST IN TWO YEARS



- The Fed minutes and comments by some governors showed that the central bank could start hiking rates as early as March.
- US Treasuries started to reflect that, with yields rising across all the maturities, though longer-dated bond prices underperformed.
- The spike in yields could prompt hedging that would continue the movement a bit longer.
- Yields have started rising in other bond markets, from Germany to EM, as a side-effect to the US move.

THE US UNEMPLOYMENT RATE HAS FALLEN BELOW THE FED'S LONG-TERM FORECAST

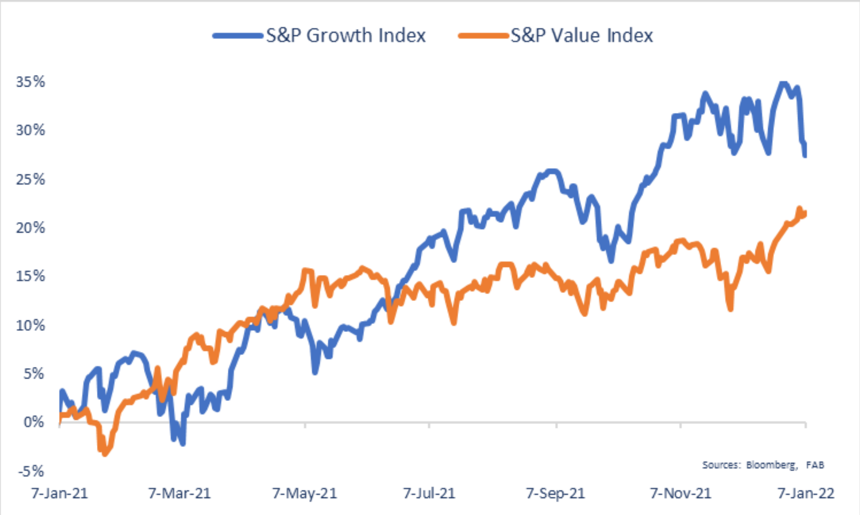
- The drop to 3.9% suggests the US is near full employment, even as the participation rate remains subdued.
- The number could strengthen calls for the Fed to start hiking rates earlier as its employment goal has been met.
- This week, CPI numbers, expected to come higher than 7% year-on-year, are likely to reinforce the case for faster-than-expected rate hikes.
- This prospect has accelerated a sell-off in the bond market, which has been accompanied by falling prices of high-growth stocks.



THE NASDAQ 100 HAS FALLEN 4.22% SINCE JANUARY 3rd AS TREASURY YIELDS RISE

- Some of the companies with the highest expected price-to-earnings multiples have led the index on the way down.
- Investors are likely to demand lower prices to own companies which do not pay dividends or still do not generate large profits.
- The sharp move down could prompt some buying this week, but the momentum remains downwards.
- While some high growth stocks have fallen steeply, some of the more cyclical sectors have held up.

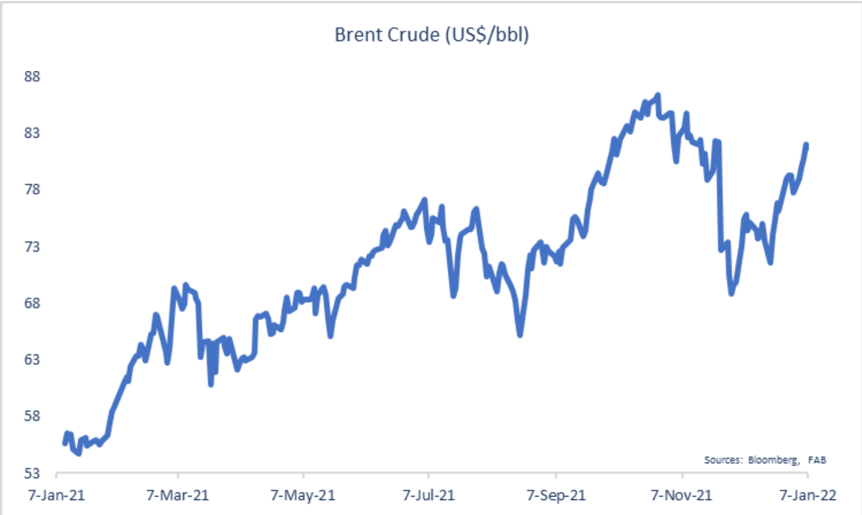
VALUE STOCKS HAVE OUTPERFORMED GROWTH SINCE THE BEGINNING OF THE YEAR



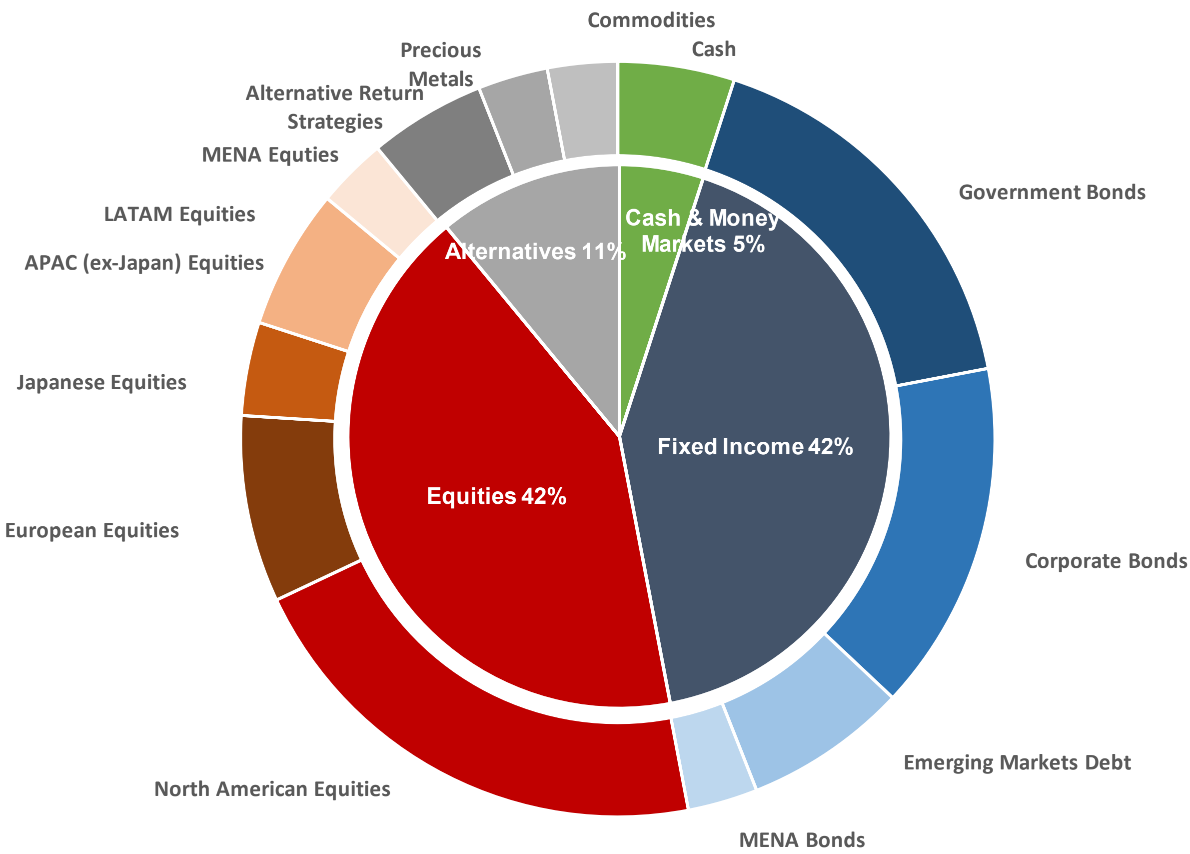
- The S&P Value index is up 1.04% while the S&P Growth index has fallen 4.49% so far this year.
- The fall has come in tandem with expectations of high nominal growth and inflation in the US, as well as a higher probability of an earlier start to the normalization of US interest rates.
- The move mirrors what happened last year, when Treasury yields rose in the first quarter, and value outperformed growth. Later, however, growth stocks caught up and ended the year ahead of their value peers.

BRENT ROSE TO US$82/BARREL AS GEOPOLITICAL TENSIONS REIGNITED SUPPLY WOES

- Production has been disrupted in Kazakhstan and Libya in the past few weeks amid geopolitical tensions.
- OPEC+ agreed to increase output by about 400.000 barrels in February, in line with plans floated last year.
- Some analysts are questioning how much more many of the members of the group can increase output.
- Meanwhile, US shale production continues to increase at a sluggish pace, and is unlikely to quickly replace any output lost if there are further disruptions in OPEC+ countries.



Asset Class	Positioning	Detail
Cash	Underweight	Putting cash to work in risk assets.
Fixed Income	Overweight	Keeping a slight overweight focused on EM dollar debt.
Equities	Overweight	Slightly overweight in Asia ex-Japan and US markets.
Alternatives	Underweight	However, reducing the underweight in hedge funds.



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