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GEOPOLITICAL CONCERNS TAKE THE FRONT SEAT

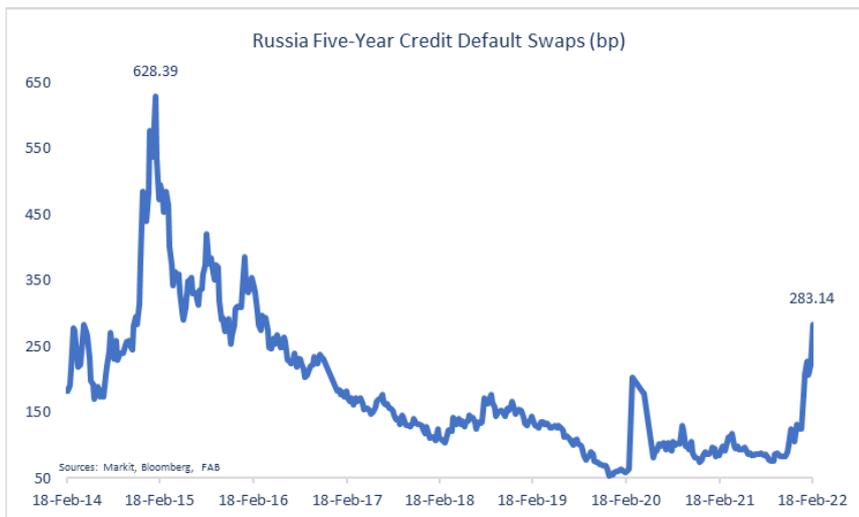
February 21st 2022

- Russian troop build-up and US accusations escalate tensions in Ukraine
- Treasury yields retreat as investors seek havens amid uncertainty
- Global stocks have another negative week as investors shun risk
- Markets seem set up for a relief rally if diplomacy prevails

Academics have been proving for nearly a century that individual forecasters are usually as good at predicting as a roulette. Most of them have also concluded that the market as a whole, however, does have a feel for what is coming. Asset prices are often a reflection of the general expectation of what is going to happen to them, writers as far back as Louis Bachelier concluded.

If that is the case, the messages Mr. Market is sending are mixed. The Russian stock market, along with most Western indices, seems to see a high probability of escalation in Ukraine and sanctions. Credit markets, meanwhile, are worried, but not nearly as much as their equity counterparts. One thing is certain: if cooler heads prevail, there could be a relief rally ahead.

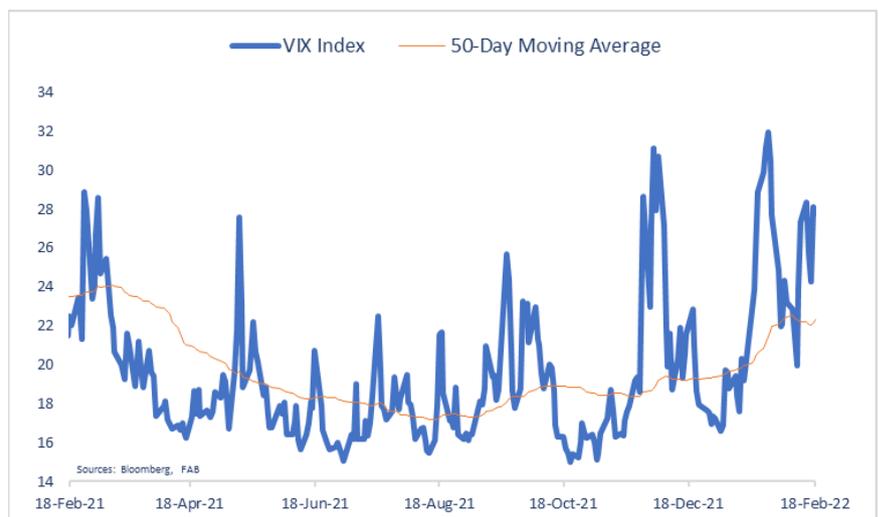
CREDIT MARKETS SEEM TO SUGGEST A DIPLOMATIC SOLUTION IS STILL POSSIBLE



- Swaps that protect against a default on Russian sovereign bonds have spiked to 283 basis points on Friday from 80 at the end of October.
- However, they remain far from the high of 628 basis points reached in 2015, shortly after the most severe sanctions were imposed on the nation due to its annexation of Crimea.
- Meanwhile, the Russian MOEX index has dropped 20.65% since its most recent peak, on October 19th. The drop is more severe than the 14.5% fall seen after the 2015 sanctions.

VOLATILITY HAS BEEN UNRELENTING SO FAR THIS YEAR, AMID RATES AND WAR FEARS

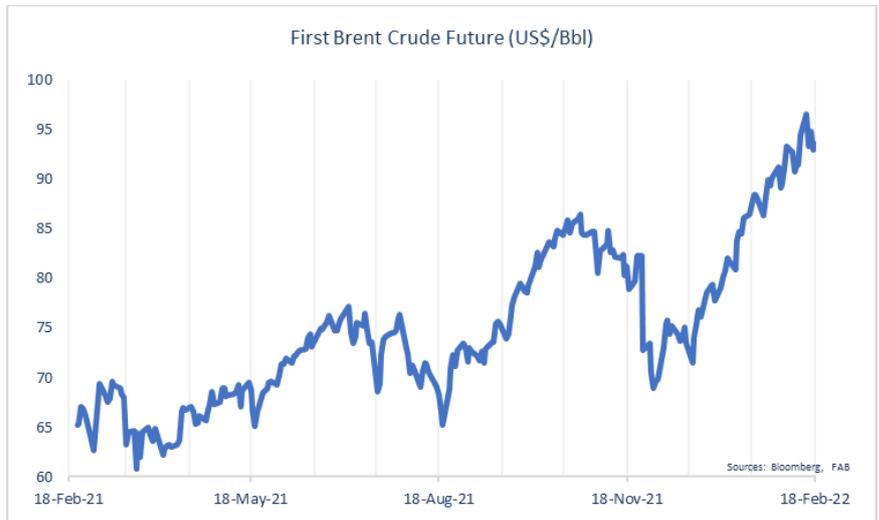
- So far this year, the CBOE S&P 500 Volatility Index (VIX) has averaged 23.49, the second highest mean for the first two months since 2016.
- Stock market jitters began with the revelation in early January that the Fed plans to reduce its balance sheet, which was followed by earnings issues and geopolitical woes.
- There is so much bad news priced in, however, that if the worse case scenarios do not play out, a relief stock rally with a simultaneous drop in the VIX could ensue in March.





CRUDE OIL PRICES HAD THEIR FIRST WEEKLY LOSS SINCE MID-DECEMBER

- Brent crude prices ended the week at US\$93.54/barrel, down by 0.9% after touching US\$96.48 on Monday.
- News of progress in the negotiations to remove sanctions from Iran helped weigh on oil prices.
- Natural gas in Europe has also retreated, and it closed at US\$72.15/m³ in the Netherlands on Friday, 23.2% lower than the US\$93.95/m³ it reached on January 25th.
- Any further escalation in Ukraine or setbacks in the Iranian negotiations could push prices higher again.



RETAIL INVESTORS HAVE STARTED TO SHOW MORE INTEREST IN GOLD AGAIN



- Gold ETF holdings, a proxy for retail interest in the yellow metal, have risen since the start of the year.
- Gold rose to US\$1,898.43/oz on Friday, its highest price since June, and is up 3.78% so far this year, as investors seek the haven amid geopolitical concerns.
- When real yields rise, however, gold prices usually stay steady or fall.
- In their last spurt, during the second quarter of 2021, gold prices peaked at US\$1,908/oz, a level that may be seen as a resistance this time around.

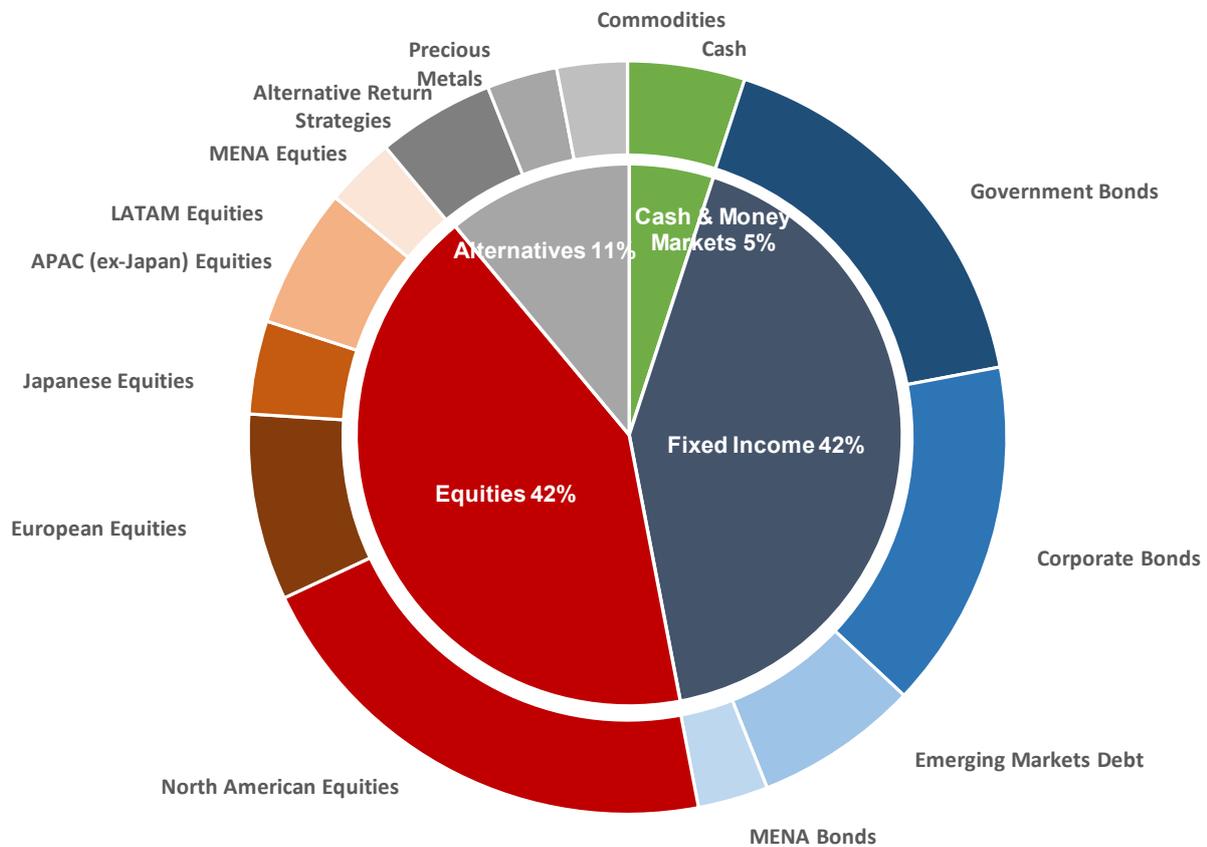
THE FED'S PREFERRED INFLATION GAUGE THIS WEEK IS LIKELY TO COME EVEN HOTTER

- The median estimate of economists surveyed by Bloomberg is pointing at core PCE, the Fed's preferred inflation gauge, to come at 5.2% year-on-year.
- If confirmed, the pace of price increases would be more than double the 2% which the Fed targets.
- With unemployment at 4%, in line with the Fed's long-term expectation, the PCE could spur more speculation of a 50 basis points hike in March.
- Most Fed speakers, though, have said they want a measured approach to rate hikes.





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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