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Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of February 7, 2022 By Amundi Research

The week at a glance

• **Markets:** A turbulent week in the equity markets. Overall, earnings releases were favourable but with notable exceptions, such as Meta, whose share price plunged by -26% on Thursday.

• **United States:** ADP (Automatic Data Processing) reported a 301K decline in private payrolls in January.

• **Eurozone:** Eurozone Consumer Price Index (CPI) surged in January 5.1% year-on-year.

KEY FIGURE

467,000

Number of jobs created in the U.S. in January.

Focus

India budget: managing growth support while gradually consolidating

The Indian budget announced on the 1st of February has been an exercise of balancing growth support and fiscal prudence. The fiscal deficit is on a path of gradual reduction (from 6.9% to 6.4% of GDP), while public expenditure should be reallocated towards more productive items (with the capital expenditure increase budgeted at +24.5% year-on-year versus total expenditure at +4.6% year-on-year). The assumptions in the budget definitions are realistic, above all nominal GDP in financial year 2023 growing at 11.1% versus 17.2% in financial year 2022.

The divestments plan looks more prudent than in past years. The target for the current fiscal year (ending in March 2022) was lowered by around 55% and the completion of the Air India sale should add to that in the remaining months. Overall, subsidies were confirmed on a descending path, although new pandemic waves have increased expenditure on food and even more on fertiliser. High oil prices were instead offset by a change in the excise duty.

The budget discussion didn't add anything to changing the capital-gains tax rules, a necessary condition for domestic government securities to enter the global Bond Index. The Indian government bond yield rose sharply on the news from around 6.68% to around 6.85%. Concerns about high net funding needs pushed yields higher. The index inclusion remains a structural theme that the government must face, balancing the need of funding while keeping external vulnerability low.

Key Dates

10th February	Release of U.S. inflation data for January
11th February	Release of UK GDP for the fourth quarter of 2021

Source: Amundi Research

Asset Class

	MARKET	AMUNDI ANALYSIS
Equity	**A turbulent week on the equity markets.** Overall, earnings releases were favourable but with notable exceptions, such as Meta, whose share price plunged by -26% on Thursday. European equities reacted to the European Central Bank's (ECB) and Bank of England's (BoE) tightening of tone with a decline.	43% of U.S. companies have published their results for the fourth quarter of 2021. They increased by +26.3% for the moment, which is 4% better than expected at the beginning of the year. Margins are holding up well. As expected, cyclical stocks are delivering the biggest changes. Results for the most popular American technology companies are mixed: They are good for Alphabet, Apple and Microsoft, but disappointing for Netflix and Meta.
Fixed Income	**On Thursday, the ECB Governing Council left monetary policy unchanged** but President Lagarde delivered a hawkish message. As a result, Eurozone bond yields rose very sharply. German 10-year yields were up 16 basis points over the week to 0.16%, and Italian 10-year yields rose by 40 basis points. Markets are pricing in about 50 basis points of tightening for 2022, which would see the end of a seven-year period of negative rates end in 2022.	The ECB signaled that the Governing Council is unanimously concerned about inflation data. March meeting will be critical. The door is open for a recalibration of monetary policy in March. The ECB will act step-by-step, maintaining flexibility and optionality. In March, it will end the pandemic emergency purchase programme (PEPP) and reassess the net asset purchases under the asset purchase programme (APP). The central bank could announce an end to the net bond purchases as of fourth quarter for a possible rate hike in 2022.
Credit	**Sentiment in credit markets was weaker by the end of the week,** on the back of hawkish messages after meetings from both the BoE and the ECB. The former actually surprised markets with its decision to unwind its corporate bond purchase programme not only through a simple run-off, while the ECB president was open to a possible recalibration of quantitative easing at the March meeting and did not push back against market-implied rates.	Credit default swap spreads continue to be correlated to market volatility rates, while cash bond spreads look more resilient to hawkish central banks. This resiliency also has to do with the fact that, despite the sharp rise in bond yields, equity implied volatility failed to move significantly to the upside. The turn to a more hawkish tilt by central banks makes technicals less supportive, but the fundamental picture and a low default rate environment still look positive for corporates.
Foreign Exchange	**The U.S. dollar depreciated this week versus all G10 currencies,** in particular versus the Swedish krona and the Norwegian krone. The euro also appreciated versus the U.S. dollar because the ECB acknowledged for the first time that inflation risks tilted to the upside. In the emerging space, the situation was quite mixed: on the wave of Lagarde's comments, all Eastern European currencies appreciated versus the U.S. dollar, while many Latin American currencies depreciated.	The sequencing of slowing global growth and the Federal Reserve's (Fed) starting policy normalisation in the months to come is likely to continue to support the U.S. dollar, in the very short term. ECB comments have to be closely monitored. We are cautious on emerging market foreign exchange, with a preference for Latin American currencies that are showing strong fundamentals notwithstanding political tensions.
Commodities	**Commodities rose sharply by 0.9% this week.** The price of West Texas Intermediate (WTI) and Brent drifted higher to $87 and $91 per barrel, respectively, due to geopolitical issues in the Middle East and Eastern Europe. Gold stabilised at $1,800 per ounce, while base metals kept on rallying, by 1.5%.	Overall, the view on commodities remains constructive despite demand concerns related to the pandemic and more aggressive monetary policy. Supply issues and bottlenecks will last for a while, supporting base metals and natural gas, considering that they are necessary for the first stages of the green transition. Central banks and nominal (real) rates are still the key variables for the gold price. Oil prices will be driven by the decisions of the Organization of Petroleum Exporting Countries (OPEC) and geopolitical issues in Eastern Europe and Middle East.

Economic Indicators

	MARKET	AMUNDI ANALYSIS
United States	**ADP (Automatic Data Processing) reported a 301K decline in private payrolls in January.** This is well below consensus, suggesting that another miss could come also on the payrolls report, given that, as Omicron hits, an estimated 5 million Americans were isolating around mid-month.	A huge 154,000 drop in leisure and hospitality payrolls, suggesting that much of the weakness was indeed Omicron-related, drove the decline. Yet, the weakness was broad-based, as manufacturing payrolls declined by 21,000, trade, transport and utilities employment fell by 62,000 and construction payrolls declined by 10,000. In our opinion, this drop should not be extrapolated as a sign of fundamental weakness in the labour market.
Eurozone	**Eurozone Consumer Price Index (CPI) surged in January,** rising 0.3% month-on-month against expectations for a decline and rising to 5.1% on a year-on-year basis. Core inflation rose 2.3% year-on-year, down from 2.6% in December, and above the consensus.	The surprise was primarily driven by energy, rising more than expected and offsetting the downward pressures from one-offs. Food also continued rising. While core inflation fell from 2.6% year-on-year to 2.3% year-on-year, the decline masks robust monthly growth in both core goods and services. Looking ahead, inflation should still moderate into yearend towards the ECB target, although only gradually.
Japan	**The unemployment rate dropped to 2.7% in December** from 2.8% in the previous month. The labour market tightened on the back of the increased labour force participation rate and total employment. The job-openings-to-applicants ratio climbed 0.01 percentage point to 1.16 in December, as new job offers went up.	The improvement of the labour market reflected the steady recovery of economic activity towards yearend. That said, Japan's daily Covid-19 infections topped 100,000 for the first time in early February, and the country is keeping its border shut, which will disrupt the economic recovery in first quarter.
Emerging Market	**Past the peak of hawkishness?** The Central Bank of Brazil (BCB) hiked once again, by 150 basis points but also announced a reduction in the pace of future adjustments after ex-post real rates turned positive for the first time in this cycle. The Monetary Policy Committee of the BCB decided that the advanced stage of the hiking cycle, the lagging nature of monetary policy, and the shifting of focus to 2023 made such a move appropriate, although inflation continued to surprise on the upside.	We see the hiking cycle ending in March 'already' at 11.50% (-75%) on the same day the U.S. Fed kicks off its own process of renormalisation. The BCB may need two more meetings to wrap things up, but, regardless, a U-turn should still happen this year. As stagflation turns into stagnation over the course of the year, the BCB will be in a position to address the 'stag' part and unwind some of the sharpest tightening in emerging markets as one of the first central banks to do so.

Index	Return % (excl. dividend) in local currency				Return % (excl. dividend) in USD			
	Price Index	1W	1M	YTD	Price Index	1W	1M	YTD
Bangkok SET	1669	21	7	7	50	22	14	14
MSCI World	2325	28	-60	-55	3052	33	-58	-55
MSCI Asia ex Japan	940	13	-27	-25	767	14	-30	-29
MSCI Emerging Market	68797	13	-20	-18	1210	15	-19	-18
MSCI AC Pacific ex Japan	600	15	-32	-32	572	17	-35	-37
Australia All Ordinary	7375	37	-52	-52	5273	51	-57	-68
CSI 300	4564	-12	-76	-76	717	-12	-75	-75
Hang Seng China Enterprises	8350	7	20	14	1071	7	20	14
Hang Seng Index	23802	0	23	17	3054	-1	23	18
India Sensex	58788	26	-7	9	785	29	-15	2
Jakarta Composite	6684	11	3	16	0	12	-5	7
Nikkei 225	27241	41	-54	-54	237	46	-51	-52
Korea Composite	2708	36	-94	-91	2	33	-105	-104
MSCI Malaysia	486	5	-14	-24	289	8	-17	-28
New Zealand SE 50	5042	24	-54	-54	3364	35	-69	-78
Philippine SE Composite	7383	15	49	37	145	21	47	35
FTSE Singapore Straits Times	3316	17	58	62	3629	19	59	64
Taiwan Weighted	17674	0	-33	-30	635	-1	-40	-35
Dow Jones Industrial	35111	28	-40	-34	35111	28	-40	-34
MSCI Europe	1876	-1	-35	-31	2033	20	-27	-29
S&P Composite	4477	35	-67	-61	4477	35	-67	-61
FTSE 100	7529	-3	20	20	10248	13	32	25
CAC 40	7006	-3	-29	-21	7999	22	-19	-17
DAX 30	15368	-10	-41	-33	17547	14	-30	-29

Sources: Amundi Research AM - Data updated on 02/04/2022 at 3pm. Past performance is not guarantee of future results.