October 17, 2022

Monday Briefing – 17 October 2022

HIGHLIGHTS

- Last week was dominated by the US CPI for September that came in above expectations, while the core CPI moved to a new four-decade high. Increases in shelter, food, and medical-care costs drove the inflation growth, a hawkish message that the signs of persistent price pressures have not abated.
- On fixed income markets, the hot inflation reading pushed the day that the Fed will step off the monetary breaks even further out into the future. Treasury yields rose over the week, with the 10-year US Treasury note yield moving above 4.0%, while the two-year yield hit 4.5%, its highest level since 2007.
  • On the equity market, stocks fell sharply on the news but quickly rebounded to end up by more than 2.5%, an impressive intra-day turnaround of more than 5.5%. For the week, major equity indexes were mostly lower.
- Such confusing market action sent people into narrative creation overdrive, citing short covering, stretched bearish positioning, technical triggers, and inflation fatigue as rational for one of the biggest intra-day reversals.
- In the UK, investors flocked out of commercial property funds following the bond market

buyer strike, raising the risk of an asset fire sale. Major funds imposed limits on withdrawals, in some sort of illustration of what the IMF warned, namely amplified shocks of illiquid open-ended funds.

- Liz Truss scrapped her plan to freeze corporation tax in another dramatic U-turn, hours after she fired her ally Kwasi Kwarteng and replaced him with Jeremy Hunt as UK Chancellor of the Exchequer, following three weeks of market turmoil.
- The IMF now projects global GDP to grow 3.2% this year and 2.7% in 2023, the latter marking a 0.2% downgrade from the July forecast. With more than a third of the global economy expected to contract this year or next, “2023 will feel like a recession” to many people, the IMF writes, adding that “the worst is still to come.”
- On Friday, major banks and financial institutions kicked off their earnings reports. For most of them, performance was mixed, hit by a drop in investment banking activity and provisions, despite big increases in interest revenue.
- In M&A news, Kroger announced that it has agreed to buy rival US grocer Albertsons for $34.10 per share in a transaction valued at $24.6 billion, a deal that pairs up two of the four largest food retailers in the United States. The deal will obviously be subject to antitrust scrutiny by the US Federal Trade Commission.
- For this week, Chinese politics are likely to dominate the news flow, with a stream of macro data also incoming. On top of that, earnings season will move up a gear with big names reporting (i.e., Netflix, ASML, IBM, Johnson & Johnson, Tesla, Bank of America, Procter & Gamble and Goldman Sachs).

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