

Daily Update

Your daily market news, moves
and outlook



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Markets Outlook

Equities: Markets have been surprisingly choppy this week so far, ahead of what could be a very important Federal Reserve statement tonight. Volatility has risen ahead of this central bank meeting, and as investors' concerns also grow about persistently high inflation, rising bond yields, and Russia-Ukraine tensions. The VIX reached a high of nearly \$39 on Monday, pulling back to \$29.20 this morning. European stocks are rallying on Wednesday, the EuroStoxx50 currently 2% higher, as the index looks to undo previous losses.

Currencies: The Euro slid lower again on Tuesday, hurt by concerns about the potential for military conflict in Ukraine. EUR/USD is slightly lower to 1.123 this morning, and near one-month lows, while EUR/GBP trades at 0.836. Traders will be closely watching USD and the Canadian Dollar today in light of their respective central bank releases.

Safe-havens: Gold has edged higher in recent days, benefiting from growing uncertainty around the world, the metal actually traded \$1,854 yesterday for the first time since November. The general outlook for higher interest rates around the globe is keeping bond prices under pressure, any attempt at a rally in US Treasuries in particular this week has been sold. This has kept yields near two-year highs in the region, US 10yr currently yielding 1.78%, US 2yr at 1.04%.

Looking ahead: Today we get two central bank releases from North America, firstly from the Bank of Canada at 3pm - with many investors expecting the BOC to lift its overnight interest rate from 0.25% to 0.50% today, its first hike of this cycle. Of course the main event of the week will be the Fed's release this evening, due at 7pm, and will be followed by J Powell's press conference 30 minutes later. More on this in our Financial News section of this update.

Key Events to Watch

26/01/2022 - BOC Rate Decision

26/01/2022 - Fed Rate Decision

27/01/2022 - US GDP

28/01/2022 - US Core PCE inflation

Market Moves

Equity Indices	Value	Daily Change	YTD Change
S&P 500	4,356	-1.22%	-8.60%
DAX	15,123	0.75%	-4.79%
EuroStoxx	4,078	0.59%	-5.12%
ISEQ	7,915	0.06%	-6.26%
FTSE	7,371	1.02%	-0.18%
Nikkei 225	27,011	-0.44%	-6.18%

FX	Value	Daily Change	YTD Change
EUR/USD	1.1299	-0.21%	-0.66%
EUR/GBP	0.8360	-0.35%	-0.46%
GBP/USD	1.3496	0.08%	-0.19%
USD/CHF	0.9181	0.49%	0.78%
USD/JPY	113.86	-0.05%	-0.97%
EUR/JPY	128.65	-0.26%	-1.65%

Fixed Income	Value	Daily Change
US 10yr	1.776	0.000
US 2yr	1.027	0.056
German 10yr	-0.081	0.017
Irish 10yr	0.424	0.025
UK 10yr	1.165	0.033
Japanese 10yr	0.135	0.001

Financial News Round Up

Federal Reserve Today

All eyes will be on the Federal Reserve's first monetary policy release of 2022, which will come at 7pm Irish time today. The US central bank is not expected to make any immediate changes to policy at this meeting, however markets have almost fully priced in for a 25 basis point rate hike at the Fed's March meeting. Investors seem to be expecting a significant amount of monetary tightening this year, with Federal Funds Rate futures even indicating a 47% chance of a 50bp hike in March.

With the United States' economy recouping all of its lost output, inflation at its highest point since 1982, and the region's unemployment rate falling back below 4.0%, we cannot deny there are plenty of reasons for the Fed to implement 'policy normalisation'.

One thing that we will be paying close attention to is Jerome Powell's post-meeting press conference. It will be interesting to see how technical this conversation becomes, especially with regard to the central bank's plans for balance sheet reduction (quantitative tightening) and any associated implications. The Fed's bond-buying programme is due to end in March, with Powell recently acknowledging that "we're mindful the balance sheet is \$9tr. It's far above where it needs to be". In light of the improvements seen in the US economy over the past year or so, we would not be surprised to see the Fed conclude this QE programme early and finish their purchases this month.

Microsoft

US tech giant Microsoft reported its fiscal Q2 earnings last night, while also issuing an upbeat forecast for the opening months of 2022 as it expects continued strong demand for a wide range of digital services in the face of global supply constraints.

EPS rose 22% over the last quarter to \$2.48, ahead of analysts' estimates for \$2.31. Overall revenue came in at \$51.7b vs the \$50.9b expected, while the firm's cloud services revenue was an impressive 46% higher.

"As tech as a percentage of global GDP continues to increase, we are innovating and investing across diverse and growing markets, with a common underlying technology stack and an operating model that reinforces a common strategy, culture, and sense of purpose" said CEO Satya Nadella.

The shares have seen movement in both directions as traders attempted to position for, and then digest this latest set of results. Microsoft fell as much as 3.7% yesterday before rebounding somewhat and actually finishing the session down 2.6%. The stock is trading over 4% higher in pre-market trade ahead of this afternoon's opening bell in New York, due to open around \$300.

Irish Economy

The Central Bank of Ireland, in its latest Quarterly Bulletin, has confirmed that it expects the domestic economy to expand by 7% this year. However, inflation is set to be higher and for longer than was previously thought, although CBI forecasts for price pressures to wane during H2. Inflation in the Republic is estimated to average out at 4.5% in 2022. Unemployment is now expected to decline to 5.8%.