

The week has been relatively less volatile, at least compared to the violent movements we have become accustomed to since the invasion of Ukraine on 24 February. With a calmer macro picture, we are taking the opportunity to reflect on the current conflict, the possible scenarios and the repercussions for the markets, with all due caution given that 1) the scenario can change with the passing of the hours, and 2) the unpredictability of events has so far constantly thrown off any attempt at forecasting.

Highlights

- The Fed delivered its first rate hike of this cycle, increasing the rate by 25 bps. Expectations are for around eight more 25 bps hikes, taking the terminal rate to 2.25%.
- Stocks rebounded strongly, ending a two-week losing streak. Factors that led to the sharp rally included lower oil prices, Russia avoiding a default on its sovereign debt, and the Fed raising rates lower than feared.
- European equities continued their rally for the second week in a row. Chinese equity markets also rallied, from very oversold levels on the back of the governments' market-friendly statements, affirming the Party's commitment to ensuring capital markets stability, supporting overseas stock listings, de-risking the property sector and completing the crackdown on Chinese technology firms "as soon as possible".
- Gold had a quick retracement after hitting previous all-time highs, and then found local support at the June high. It may consolidate in this area before testing new all-time highs again.

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Markets & Macro | Cautious on the recovery rally

Tail risk is high.

This week saw the Federal Reserve's (Fed) first rate hike of this cycle – which the Fed and the market expect to see around eight more 25 basis points hikes in, taking the terminal rate to 2.25%. We also note that Fed Chair Jay Powell has managed to send a very reassuring message to the market, despite the fact that the rate revision (upward) and the indications for balance sheet reduction have been decidedly hawkish. The extremely positive reaction of the market in the days that followed can therefore be read as a sign of appreciation of the pragmatic and determined attitude to countering the inflationary wave we are experiencing, which concerns both investors and consumers alike.

Our view: The feeling of the last few days is that the war is indeed in a stalemate, and that the tide has turned in favor of the Ukrainian side. Thanks to the motivation of their own lines and Western technological and military support, the resistance is proving to be enormously superior to forecasts, especially those of the Russians.

In fact, it seems increasingly clear that on the Russian side, there was an enormous underestimation of the difficulty of the war. In fact, it seems likely that the information provided to the military leadership from the bottom up was falsified during the preparation phase of the war, painting a

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motivational and organizational picture of the ex-servicemen that was far removed from reality. The response of the Ukrainian population was also imagined to be much milder.

The impression is that the US has sniffed Putin's weakness and is supporting the Ukrainians (without ever crossing the "red lines") in order to make his condition more and more difficult, if not to overthrow him. Otherwise it would not be possible to explain why they continue to send more and more sophisticated weapons to the Ukrainians, while the peace talks seem to be going on. So either the negotiations are untrue, which is possible, or they have given Zelensky a mandate to drag it out in an attempt to weaken Putin, both militarily and internally, because of the repercussions of the sanctions on the economy and the population.

On the Chinese side, the feeling is that the Putin figure is becoming unwieldy. We imagine that Putin left Beijing expecting an easy “quick war”, certainly not a conflict that by some accident could turn into a third world war. On the one hand, it is an advantage for China to have Russia on its side and subdued (because of an easy and advantageous supply of raw materials). But we know very well that China's trade surplus is realized on Western markets, and the feeling is that the Chinese do not want to risk sanctions that would undermine their mercantilist economic model – hence, some of the distancing we have seen. This week's declarations of support for the financial markets could be seen as a reaffirmation of the principles of the openness to the Western-style capitalist model, with a desire not to further scare off Western investors who have abhorred the domestic stock market over the past year.

As far as the ongoing negotiations are concerned, our impression is that a solid peace agreement with withdrawal of Russian troops can only happen with a negotiation also on sanctions, so it must involve the EU and the US as well, and not only Russia and Ukraine. But as we were saying, it seems to us that the Ukrainians are raising their heads these days, and that consequently it is them who are raising the stakes in terms of the concessions to be made. If on NATO, Crimea, and Donbass an agreement is achievable, on the question of neutrality everything seems more difficult at this point, especially if the Ukrainians feel strongly. For Putin to be serious about reaching an agreement, his army must be close to a collapse or at least he must perceive this as a real risk (desertions, motivation, supply lines).

This seems more possible as the days go by. Remember that four generals seem to have been killed in the field, which is very unusual (this was seen as the need to go into the field to control and coordinate troops that were definitely out of control). Moreover, demotivated troops can hardly go and fight "house to house", hence the situation we are in. Hence the risk that Putin will at some point decide to raze what he cannot conquer. And this is certainly the most worrying scenario, first and foremost for the Ukrainian population, but also for Western countries because the risk of incidents or that the violence becomes really unbearable for our public opinions is increasing.

While the markets are understandably discounting an exit from the conflict with a ceasefire that could come within a few days, we must bear in mind that the tail risk remains high. For this reason, although we have tried to participate in the recovery rally in recent days, we remain cautious as Putin's unpredictability, even more so if he is hurt or threatened, must be factored in.

Equities | A bear market rally, or the start of a recovery?

Stocks end 2-week losing streak.

Stocks rebounded strongly, ending a two-week losing streak. Factors that led to the sharp rally included lower oil prices, Russia avoiding a default on its sovereign debt, and the Fed raising interest rates by 0.25%, suggesting a moderate pace on tackling inflation. While acknowledging the uncertainties arising from the Russia-Ukraine war, Fed Chair Powell asserted that the US economy is strong and that it can “flourish” in the face of Fed tightening.

One key observation was how well investment grade and high yield credit securities performed following the Fed's rate hike. European equities continued their rally for the second week in a row, recovering from the Russia-Ukraine conflict sell-off. Chinese equity markets also rallied, from very

oversold levels on the back of the governments' market-friendly statements, affirming the Party's commitment to ensuring capital markets stability, supporting overseas stock listings, de-risking the property sector and completing the crackdown on Chinese technology firms "as soon as possible".

Figure 1: Global Equity Market Performance

		Value	WTD % Chg	MTD % Chg	YTD % Chg
INDU Index	Dow Jones	34,754.93	5.53%	2.71%	-3.89%
SPX Index	S&P 500	4,463.12	6.19%	2.13%	-6.05%
CCMP Index	Nasdaq	13,893.84	8.20%	1.09%	-11.05%
SX5E Index	Euro Stoxx 50	3,902.44	5.85%	-0.48%	-8.92%
SMI Index	Swiss Market	12,184.99	6.49%	2.82%	-4.27%
UKX Index	FTSE 100	7,404.73	3.59%	-0.20%	1.25%
CAC Index	CAC 40	6,620.24	5.75%	-0.58%	-7.34%
DAX Index	DAX	14,413.09	5.76%	-0.33%	-9.27%
FTSEMIB Index	FTSE MIB	24,222.16	5.13%	-4.70%	-11.06%
NKY Index	Nikkei 225	26,827.43	6.62%	1.13%	-6.77%
HSI Index	Hang Seng	21,412.40	4.18%	-2.21%	-8.18%
SHSZ300 Index	CSI 300	4,265.90	-0.94%	-4.40%	-13.65%

Source: Bloomberg, as at March 18, 2022. Performance figures in indices' local currencies.

Our view: As we stated in our Market Flash publication two weeks ago, we wouldn't be surprised if the light positioning in equities and extremely low sentiment led to a strong rally in equities. While very little has changed from an inflation standpoint, we believe that markets had priced in at least a 50% probability of a recession, prior to last week's rally. Whether this is a bear market rally or the beginning of a recovery will depend in large part on how commodity prices, especially oil, go from here.

Crypto & Blockchain | What is the ApeCoin?

New token reaches USD2 billion market cap in a day.

This week, we try to shed some light around the new coin that everyone is talking about these days associated with Bored Ape's famous NFTs, the so called ApeCoin. It all starts with an initial board made up of high-profile cryptocurrency investors like Reddit co-founder Alexis Ohanian; a traditional Delaware-registered corporate entity with close ties to renowned venture capitalists specializing in both early-stage startups and established growth companies Andreessen Horowitz; and a few Cayman Islands-based consulting firms. The lethal mix creates a token that after just one day of trading, had a market capitalization of nearly USD2 billion.

The ApeCoin is the primary token for the Bored Ape Yacht Club ecosystem, which is expected to distribute future revenue from community products and services. A token that has the primary purpose for culture, gaming and commerce used to empower a decentralized community at the forefront of the web3. The ApeCoin provides access to certain parts of the ecosystem that are not otherwise available, such as exclusive games, merch, events, and services. The governance aspect allows ApeCoin holders to participate in ApeCoin DAO decisions. Economically, this token can help bring value to NFT through the monetization of owning the non-fungibles tokens. The hype is in its early stages having broken out a few months ago. Instagram announced this week the introduction of NFTs to their platform.

Another interesting key reason behind the success is the club access. A great community of people discussing and sharing knowledge, to play, learn, work and just be together. And most importantly, engagement. All words that are gradually missing from the old traditional world of a generation described from the outside as increasingly bored.

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Commodities | Gold may test new all-time highs again

Chart of the week

Gold had a quick retracement after hitting previous all-time highs, and then found local support at the June high. The precious metal may consolidate in this area before testing new all-time highs again, confirming the strong bullish break of the previous triangle.

Figure 2: Price of Gold



Source: Bloomberg, as at March 18, 2022.

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Week Ahead | Key events to watch for

- **The flash PMIs from around the world will be relevant next week**, as they are the first data of interest to markets, which are collected after the outbreak of the war in Ukraine. Particularly relevant are the European PMIs, given their proximity to the conflict and energy dependency.
- **Otherwise, all attention will remain on the conflict, with negotiation attempts underway** and hopes for an imminent ceasefire.

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