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Asian Markets

LIVE MARKETS Lower your expectations (and your tech valuations)

Reuters

12 minute read

Summary

- Major U.S. indexes up, but well off highs; Nasdaq up >1%
- All major S&P sectors green: tech leads
- Dollar ~flat; gold edges up; crude little changed, bitcoin rises
- U.S. 10-Year Treasury yield dips to ~1.84%

Jan 20 - Welcome to the home for real-time coverage of markets brought to you by Reuters reporters. You can share your thoughts with us at **markets.research@thomsonreuters.com**

LOWER YOUR EXPECTATIONS (AND YOUR TECH VALUATIONS) (1345 EST/1845 GMT)

With a number of rate hikes from the Federal Reserve on the horizon, what does this mean for the megacap technology companies that have been responsible for much of the U.S. equity market bull run of the past year?

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Investors will need to rethink their valuations of the biggest tech companies, which have "got ahead of fundamentals," according to Ryan Jacob, chief investment officer of Jacob Asset Management who manages the Jacob Internet Fund.

Jacob notes that most large tech stocks have traded around 20 times earnings before interest, taxes, depreciation, and amortization (EBITDA), but this will require adjusting as interest rates rise and valuations catch up.

"We think multiples could drop 20% to 30% as the year progresses, which means growth will have to pickup the slack, which will be tough," he told the Reuters Global Markets Forum.

Similarly, Richard Saperstein, chief investment officer, Treasury Partners says equity market investors should lower their expectations for 2022.

"There will likely be little to no multiple expansion in 2022," said Saperstein.

With that in mind, Jacob says this could be a good time to buy the dip in small and mid-cap stocks, which have currently fared somewhat worse than their large cap counterparts.

Invesco's S&P SmallCap Information Tech ETF **(PSCT.O)** has dipped more than 8% since the start of 2022. The popular QQQ ETF **(QQQ.O)** that tracks the Nasdaq 100 **(.NDX)**, is down about 7%.

"Small (and) mid cap tech should fare much better as their growth rates can overcome some multiple compression that is likely if rates rise," Jacob added.

(Lisa Mattackal)

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REELING STOCKS MAY BE OVER-REACTING, IF INFLATION RELAXES (1330 EST/1830 GMT)

Given prospects for tighter monetary policy, stock and bond markets have been thrown for a loop this year.

Indeed, according to Jack Ablin, chief investment officer and founding partner at Cresset, the recent bond rate spike prompted nervous equity investors to hit the “sell” button. This because

investors fear higher prices will force the Fed to abandon the easy money policies that have benefited equity risk takers over the last decade.

As Ablin sees it, investors are concerned higher rates and tighter financial conditions will stoke valuation compression, in effect undoing much of the Fed's decade-long largesse. In the worst-case scenario, if the Fed were to attempt to extinguish runaway inflation by, in effect, reversing 10 years' worth of monetary accommodation this year, Cresset estimates that the S&P 500 could collapse 30%, back to pre-pandemic levels.

"Through the lens of valuation and inflation, history suggests that our current inflation rate corresponds to a trailing PE ratio of less than 15x, about 40 per cent below current levels. We need inflation to gravitate toward two per cent to maintain current valuations. Given current trends, we think that is possible."

(Terence Gabriel)

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ROCKY START FOR U.S. STOCKS, HSBC RECOMMENDS HIDING IN CHINA (1238 EST/1738 GMT)

HSBC cut its overweight rating on U.S. stocks and suggested looking at emerging markets "to hide out in the meantime."

The analysts particularly recommended China given that it is in a different stage of the growth and liquidity cycle.

While investors are betting on the U.S. Federal Reserve and other major central banks to start raising rates, China cut its benchmark mortgage rates on Thursday, following a surprise cut to the central bank's rate for one-year medium-term loans on Monday, underscoring its diverging monetary and economic picture. **read more**

On the U.S. front, HSBC is worried that rising real interest rates could pressure stocks and lead to a toxic mix for risk assets.

"The combination of disappointing global activity, inflation peaking and hawkish central banks could quite likely result in an environment of falling breakevens and higher real rates in the next six to twelve months in our view," HSBC strategist Max Kettner wrote in a note.

Nevertheless, HSBC retained its preference for risky assets and is not cutting exposure to them as sentiment and positioning remains too downbeat.

The analysts also reversed HSBC's underweight rating on eurozone equities, praising UK equities that have benefited from the performance by commodities, particularly oil, in the past two months.

(Bansari Mayur Kamdar) *****

DON'T FEAR THE FED HIKES (1209 ET/1709 GMT)

With stocks off to a sluggish start to the year, in large part due to inflation worries and the anticipated tightening of monetary policy by the Federal Reserve to combat the rising prices, Scott Wren, senior global market strategist at Wells Fargo Investment Institute notes investors shouldn't be that rattled by rising rates.

Wren points out that the S&P 500 **(.SPX)** is still down less than 5% from its January 3 record and hasn't seen a meaningful pullback in the past 18 months, having not touched its 200-day moving average since June 2020, which might make the recent downside volatility feel worse to many market participants.

But even with the Fed largely expected to begin hiking rates at its March meeting, Wren points out that equities can respond positively to a rate hike cycle, with a median return of 30% for the S&P 500 during the five rate hike cycles starting in 1989.

In addition, none of those periods posted a negative return and while there was volatility as the central bank prepared the market for rising rates, the overall performance was good.

Wren does note that a question among investors is if the Fed will be too aggressive, leaving the federal funds target rate too high, especially with many expecting inflation to decelerate and growth to slow in the latter half of the year, which remains a risk, and anticpates the Fed will hike rates four times this year.

(Chuck Mikolajczak)

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JOBLESS CLAIMS, HOME SALES, PHILLY FED: FASTEN YOUR SEAT BELTS (11145 EST/1645 GMT)

Data released on Thursday was the equivalent of the seat-belt sign lighting up on a cross-country flight, accompanied by reassurances that the turbulence should shortly subside.

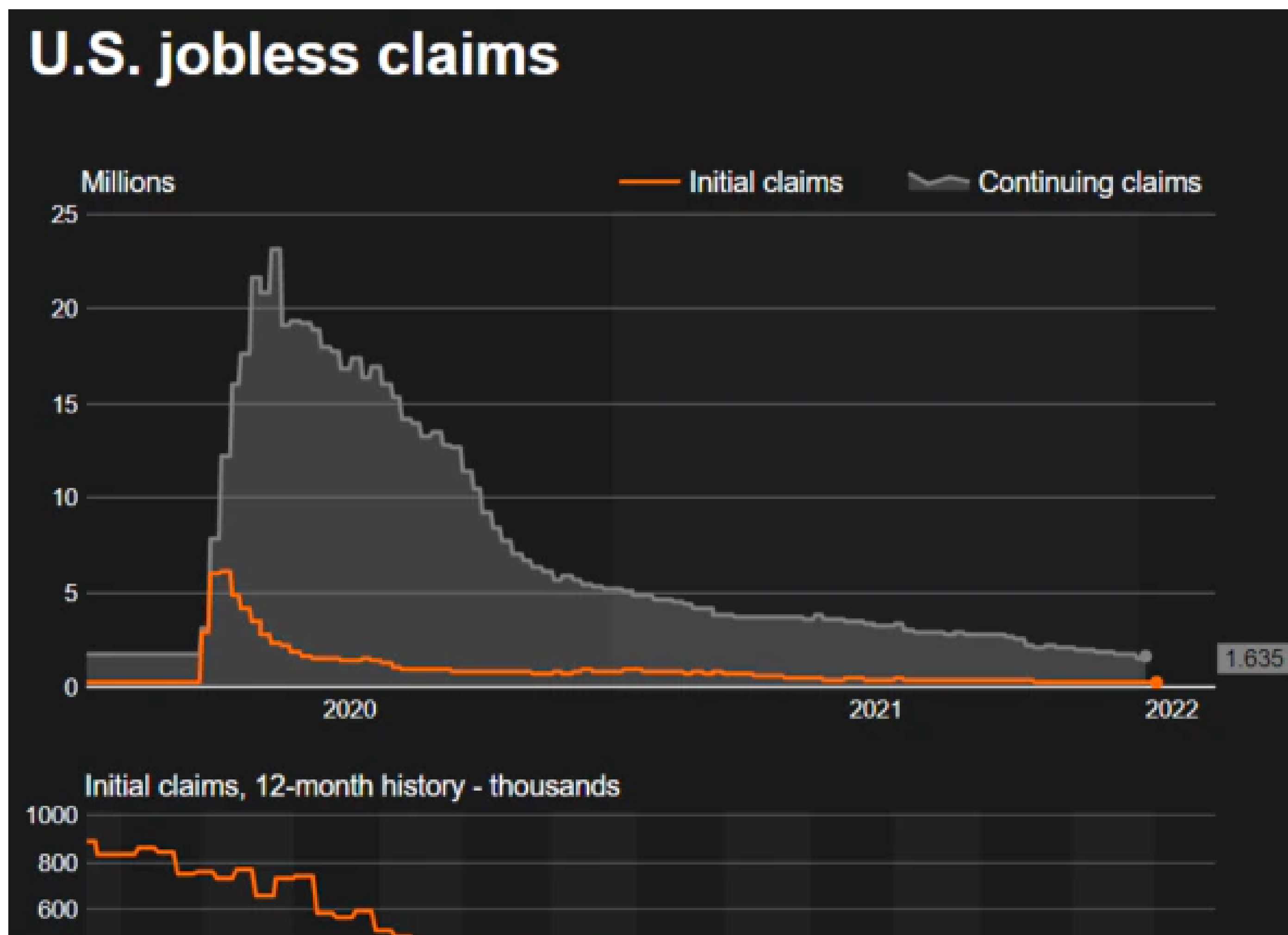
The number of U.S. workers filing first time applications for unemployment insurance **(USJOB=ECI)** defied expectations last week by jumping 24% to 286,000, the highest level in three months. **read more**

Analysts expected claims to move in the other direction, shedding 10,000 to 220,000.

"The rise in claims reflects both an increase in layoffs due to the surge in Omicron cases as well as an added boost from large seasonal adjustment factors," writes Nancy Vanden Houten, lead U.S. economist at Oxford Economics, who expects "claims to gravitate back toward the 200k level once the Omicron wave passes."

Even with last week's surprise jump, initial claims remain near the upper end of the range associated with healthy labor market churn.

Ongoing claims **(USJOBN=ECI)**, reported on a one-week delay, also rose more than anticipated, growing by 5.4% to 1.635 million - a level which is still below the pre-pandemic level of about 1.7 million.



Jobless claims

Separately, the sales of pre-owned U.S. homes **(USEHS=ECI)** tumbled in the last month of 2021 by 4.6% to a 6.18 million seasonally adjusted annualized rate (SAAR), according to the National Association of Realtors (NAR). **read more**

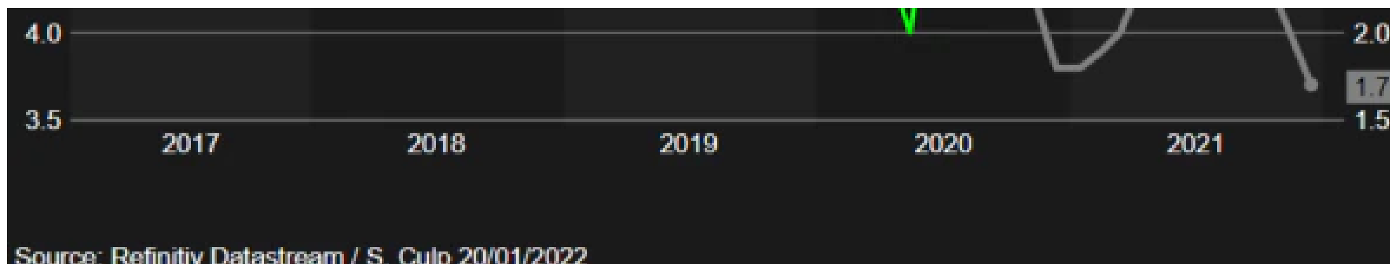
While demand remains robust, inventory of homes on the market remains depleted, dropping to a record low 1.8 months supply from 2.1 months in November.

Single homes on the market are even more scarce, dropping to 1.7 months supply.

"December saw sales retreat, but the pull back was more a sign of supply constraints than an indication of a weakened demand for housing," tweeted Lawrence Yun, chief economist at NAR.

Wednesday's report from the Mortgage Bankers Association, showing an increase in applications for loans to purchase homes even as interest rates are on the rise, suggests potential buyers are eager to ink the contract before rates drift any higher.

"Anticipation of higher mortgage rates could provide a lift to home sales over coming months but tight inventories and elevated prices will remain a constraint for buyers," says Rubeela Farooqi, chief U.S. economist at High Frequency Economics.



Existing home sales

Brighter economic news came courtesy of the Philadelphia Federal Reserve, which showed manufacturing activity expanding at a more robust pace than economists anticipated.

The Philly Fed Business index **(USPFDB=ECI)** jumped 7.8 points to a reading of 23.2, leap-frogging past the even 20 consensus.

The surge was driven by new orders and shipments, but the headline was held in check by slower delivery times and employment.

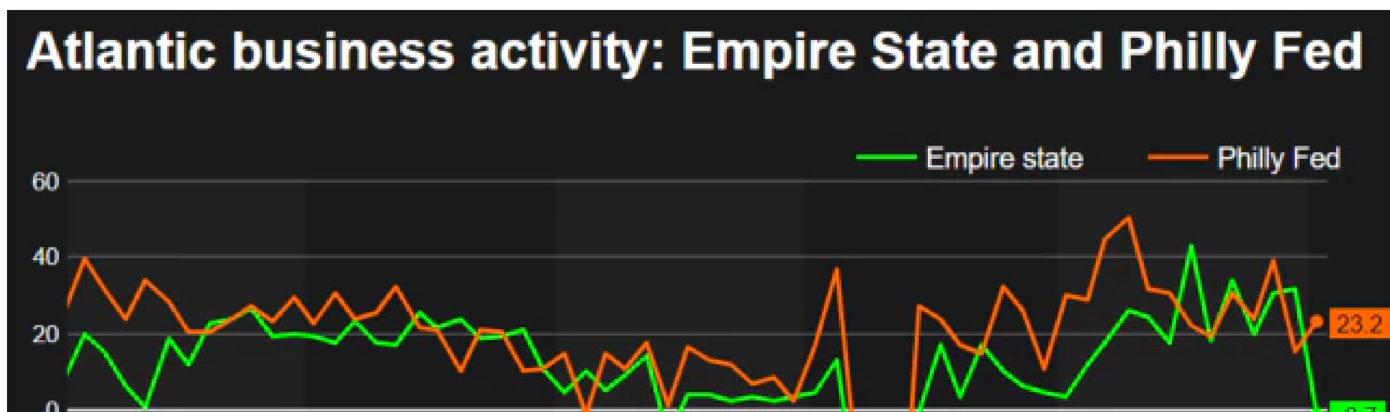
Perhaps the worst bit of news in the report was the 6.4 point increase in prices paid, suggesting that while supply chain issues might be on the wane, the resulting inflation is still peaking.

"The uptick in the Philly Fed index is a pleasant surprise after the plunge in the Empire State index," says Ian Shepherdson, chief economist at Pantheon Macroeconomics.

"On the supply side, unfilled orders rebounded but failed to reverse all the December drop, while the delivery times index, which is less volatile, fell to a four-month low," Shepherdson added. "Supply-chain pressures remain intense, but they appear not to be worsening further."

As Shepherdson points out, the report stands in stark contrast with Tuesday's Empire State print, which showed manufacturing in New York plunging into contraction territory for the first time in since June 2020.

A Philly Fed/Empire State reading above zero indicates expanded activity over the previous month.



Philly Fed

Wall Street is in recovery mode in late morning trading. All three major U.S. indexes are sharply higher, with the tech-laden Nasdaq **(.IXIC)** enjoying a comfortable lead.

(Stephen Culp)

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EUROPEAN BANKS: GREAT EXPECTATIONS AHEAD OF Q4 (1011 EST/1511 GMT)

Betting on the recovery of European banks has proved a mighty popular and lucrative trade, with the sector's index doubling since the November 2020 vaccine breakthrough, and then most of the world's central banks entering a tightening cycle.

The consensual "buy" rating on the sector seems here to stay unless a dramatic and nasty trend emerges from the earnings season.

Most of the banks listed on the pan-European STOXX are expected to report Q4 2021 results in February and the prospects are pretty good.

The broad financial sector as defined by Refinitiv is expected to show profits jumped 61.9% year-over-year, even higher that the average 48.6% seen for the STOXX 600.

In a note published today, Citi analysts provided clients with a rather long list of reasons to believe in European lenders:

1) The Fed will hike rates this year and the ECB should follow suit from 2023.

2) The direction of travel for yields is up

3) Rotation towards value stocks should provide a boost

4) Banks are trading on a discount both on their own historic average and against the broader market

5) Return on tangible equity is rising toward the cost of capital

6) Dividends and buybacks are on the way up

Here's the latest Refinitiv data for the different sectors of the STOXX 600:

Q4 2021: EARNINGS GROWTH RATES

Exhibit 6A. STOXX 600: Q4 2021 Earnings Growth (Based on 316 constituents with data in both current and year-ago period)

Sector	Earnings €B 21Q4	Earnings €B 20Q4	Growth €B 21Q4	Growth % 21Q4
Basic Materials	8.6	4.9	3.7	74.6%
Consumer Cyclicals	10.3	9.3	1.0	10.6%
Consumer Non-Cyclicals	4.9	4.7	0.3	5.9%
Energy	16.3	3.9	12.3	312.1%
Financials	25.0	15.4	9.5	61.9%
Healthcare	19.0	17.3	1.7	10.0%
Industrials	9.5	5.6	4.0	71.7%
Technology	9.8	7.6	2.2	29.4%
Real Estate	1.0	1.2	-0.2	-13.1%
Utilities	4.5	3.5	1.1	30.3%
STOXX 600	**109.0**	**73.4**	**35.6**	**48.6%**

Source: Refinitiv I/B/E/S data

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(Julien Ponthus)

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U.S. STOCKS SNAP BACK IN EARLY TRADE (0957 EST/1457 GMT)

Wall Street's main indexes are higher on Thursday as results from American Airlines and Travelers kept the positive momentum going for the fourth-quarter earnings season, a day after the tech-heavy Nasdaq index plunged into correction territory.

This, as the U.S. 10-Year Treasury yield , has now deflated to the 1.8300% area after hitting a high of 1.9020% on Wednesday. With this, growth **(.IGX)** is enjoying its best day vs value **(.IVX)** in more than a month.

Indeed, tech **(.SPLRCT)**, and FANGs **(.NYFANG)** are among outperformers in the early going. NYFANG index member Netflix will be reporting earnings after the close.

Meanwhile, as the Nasdaq Composite **(.IXIC)** attempts to recover, it faces resistance at its 200-day moving average, which now resides at about 14,750.

Here is where markets stand in early trade:

RIC	Name		Last	Pct. Chng	Net. Chng	Ask ...
.NYFANG	NYSE FANG+TM	▼	7150.08	2.33 %	+162.54	
.IXIC	NASDAQ COMPOSITE	▼	14559.272	1.53 %	+219.017	
.SPX	S&P 500 INDEX	▼	4579.75	1.036675 %	+46.99	
.DJI	DJ INDU AVERG	▲	35368.98	0.97 %	+340.33	
.DJT	DJ TRANS AVERAGE	▲	15729.09	0.90 %	+141.01	
.RUT	RUSSELL 2000 IND	▼	2080.8281	0.8748 %	+18.0447	
.SOX	SEMICONDUCTOR	▲	3627.341	0.42 %	+15.155	
.SPXBK	S&P 500 BANKS	▲	432.30	0.24 %	+1.03	
GICS Sectors						
.SPLRCT	S&P INFO TECH	▲	2843.60	1.60 %	+44.72	
.SPLRCD	S&P CONS DISCR	▲	1507.94	1.28 %	+19.10	
.SPLRCL	S&P 500 CSrv	▲	259.16	1.25 %	+3.20	
.SPLRCR	SP500 Real Est	▼	299.31	0.85 %	+2.51	
.SPLRCU	S&P UTILITIES	▲	352.92	0.78 %	+2.73	
.SPXHC	S&P 500 HEALTH	▲	1546.36	0.77 %	+11.79	
.SPSY	S&P FINANCIAL	▲	657.40	0.74 %	+4.84	
.SPLRCI	S&P INDS	▲	879.84	0.58 %	+5.04	
.SPLRCS	S&P CONSSTP NDX	▼	801.96	0.54 %	+4.29	
.SPLRCM	S&P MAT NDX	▲	549.65	0.06 %	+0.32	
.SPNY	S&P ENERGY NDX	▼	490.63	-0.02 %	-0.09	
Other						
BTC=BTSP	Bitstamp LON		43036.20	3.25 %	+1352.99	
XAU=	GOLD	▼	1846.1000	0.33 %	+6.1400	
CLcv1	LIGHT CRUDE FEB2	▲	86.94	-0.02 %	-0.02	
US10YT=RR	US 10Y T-NOTE		95*29	-0.05 %	-0*01½	1.839
=USD	USD INDEX	▲	95.523	-0.081 %	-0.077	
.VIX	MKT VOLTLTY NDX	▼	22.30	-6.498952 %	-1.55	

earlytrade01202022

(Terence Gabriel)

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S&P 500: ENOUGH ALREADY? (0900 EST/1400 GMT)

In the 11 trading days from its January-3 record close, the S&P 500 index **(.SPX)** has declined 5.5%. **read more**

Meanwhile, the 5-day moving average of the CBOE equity put/call (P/C) ratio, which can be viewed as a contrarian measure of sentiment, rose to 59% on Wednesday, or its highest level since a 59.2% reading on May 14 of last year. That high was just after the SPX completed a 4% slide, although in that case, over just three trading days:

SPXPC01222022

So far, in premarket trade on Thursday, equity index futures are higher , and the P/C measure is ticking down to 58%.

Of note, since bottoming at 40.2% in June 2020, the P/C measure has ranged between high-30% and low-60% readings. If this pattern is to continue, then the measure could now be signaling that market sentiment may have become sufficiently bearish. If so, the SPX may have found, or could be very close to, a low of some form.

However, also of note, for around 20 years, from 2000 to 2020, the measure's range was mostly in the 50% to 90% area. It has only been post the COVID-crash, that the P/C measure's range

has shifted down to similar levels that led up to the tech-bubble peak in 2000.

Therefore, traders will be watching to see if the P/C measure is to oscillate back down toward, or below, 40%. **read more**

A breakout much above the low-60% area, however, may signal panic. The measure peaked at 105% on March 17, 2020, in what would prove to be a more than 30% S&P 500 collapse.

(Terence Gabriel)

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India unveils higher spending for infrastructure in growth budget

Asian Markets · February 1, 2022 · 8:07 AM EST

India unveiled on Tuesday a bigger budget of 39.45 trillion rupee ($529.7 billion) for the coming

fiscal year, stepping up investment on highways and affordable housing to put growth on a firmer footing as the economy recovers from the pandemic.

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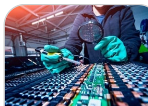

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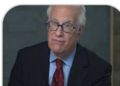

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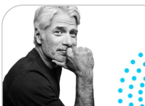

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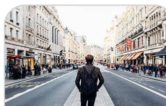

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