



24th June 2022

Global Market – Question, question & question?

In last 3 weeks we have covered 3 important subjects going into key central banks events and last week analyzing US Fed's move.

- 1) Food inflation & Energy inflation – 4th June 2022
- 2) Central Banks – Sacrifice growth to control inflation – 11th June 2022
- 3) US Fed preparing for crash landing – 18th June 2022

We highlighted concern on central banks globally before it all started with RBI MPC coming out with decision on 8-Jun-22, ECB coming out with decision on 9-Jun-22 and finally US Fed coming out with decision on 15-Jun-22.

All central banks have a single concern and the harsh reality is that – Central banks globally could do very little to address Food inflation & Energy inflation which is geo-political in nature and more driven by supply side issue rather than demand side.

This week we will try and analyze whether financial market globally have come to term with the changing dynamics or financial market needs to be prepared for worst outcome? We would mention here 3 question and share our views on it

- 1) Does Central banks can control Food inflation & Energy inflation by increasing interest rate?
- 2) US market (mother market) – is it in bear market?
- 3) US Fed (most powerful central bank) – pushing world in another crisis only to save it later?

We will share our view on these 3 questions with based on recent outcome of central banks and US Fed Jerome Powell testimony to US banking and finance committee on 22nd & 23rd June 2022.

Q: Does Central banks can control Food inflation & Energy inflation by increasing interest rate?

Equichain View: Central banks can do very little to address supply side issue whether it is for food supply or reducing price of oil & gas which is due to geo-political tension. This crisis needs to be address by government of major countries.

Food inflation: As Ukraine & Russia supplied wheat, fertilizers and other agriculture products 1/3 of world requirement. So far, no major steps announced to address this issue and few months down the line food crisis could increase.

Energy Inflation: India & China are importing more crude oil from Russia as sanctions placed by US & Europe are impacting themselves more than Russia. Sections of global expert said it earlier and now this seems to proven.

**Q: US market (mother market) – is it in bear market?**

Equichain View: We have seen earning downgrade in last quarterly earnings which was declare in the month on April & May 2022. Globally market witness major correction in month of May 2022 followed by June 2022 where fresh low made witnessing massive sell-off from equity market, commodity & crypto currencies.

Earnings cycle once starts declining, it will require some fundamental change in favour which could again lead to economy expansion. Quantitative Tightening & sharp increase in interest rate will definitively impact corporate earnings and US market along with global market have not seen any series of earnings downgrade.

In a testimony to senate – US Fed chair said that – their actions could bring recession but their primary focus remains to tame inflation.

Q: US Fed (most powerful central bank) – pushing world in another crisis only to save it later?

Equichain View:

Mortgage Rates In The U.S. Rise To 5.81%, Highest Since 2008

US Fed chair Jerome Powell in a testimony to US senate said: increase in interest rate cannot solve problem of food or energy inflation but they will continue to increase rate to bring inflation as sustainable level by killing demand and bringing asset prices down.

So, another question comes to our mind is that, once inflation comes under control, high interest rate is inviting housing or mortgage crisis? Probably market would have some hint after another round 75 bps rate hike in July 2022 & 50 bps in September 2022. It could be housing / mortgage or any other crisis and the name could be different, but we are surely concern with next 3 – 6 months.

Equichain Wealth Advisors: View & Opinion

We have tried to share our view on 3 questions based on our previous 3 article and how global events have taken place. Globally circumstance is very dynamic and change very fast so we would be watching global events carefully before making any judgement.

Please read this as our disclaimer: we are optimistic on market with long term view and also remain bullish with short term view going into result season. In medium term, let us say for next 1 – 2 quarter, globally narratives and dynamics are changing very fast as we have seen since the beginning of 2022 from January – where Nifty was at 18350 – 18400 level, within 2% of high made in October 2021, recently was 18% below October 2021 high of 18600 level. Capital allocation policy and due risk assessment should be given utmost importance in these uncertain and volatile market.