Market Review

Macroeconomic developments

The renewed lockdowns in China, the war in Ukraine as well as the increasingly hawkish forward guidance coming out from central banks all weighed on investors' sentiment in April. Thus, major equity indices and both sovereign and corporate bond prices experienced large declines as global financial conditions continued to tighten and the USD continued to strengthen.

Moreover, although the preliminary estimate of US Q1 2022 GDP growth shows a contraction in activity of 0.4% quarter-over-quarter (or -1.4% in annualised terms), growth remained very solid from an internal demand perspective. Indeed, excluding external drivers (exports and imports) and inventories, internal demand's contribution to US GDP growth rate reached 2.7% in annualised terms. This continued to be the case in April as reflected by high-frequency data like the ISM surveys, with 55.4 for manufacturing and 57.1 for services – consistent with an economy that is still growing above its potential. Headline consumer inflation continued to increase and came in at 8.5% – its highest level in four decades. However, some reprieve was seen in the price of certain non-volatile goods such as used-cars, which declined for the second month in a row.

On the other hand, while the Euro Area's preliminary Q1 2022 GDP growth estimate showed a 0.2% quarter-over-quarter advance, the conflict in Ukraine is having an acute impact on the Area's growth prospects as reflected by the large decline in consumer confidence as well as in Germany's manufacturing activity. The conflict is beginning to worsen long-standing issues in supply chains and is adding further energy price pressures, skewing hence growth risks to the downside. The situation is rather similar for UK's growth outlook, where the 54% rise in the energy price cap and the restoration of the 20% VAT rate for the hospitality sector, is setting UK households for a significant decline in real income.

China's zero-Covid policy continued to drive the country away from achieving is 5.5% official GDP growth target. The country's economy expanded by just 4.8% year-over-year during Q1 2022, before the most severe mobility restrictions had been even implemented. High-frequency data, such as the NBS manufacturing and non-manufacturing PMIs, came in on contraction territory – below the 50 level threshold – for the second month in a row in April, suggesting that further economic disruption remains to be reflected in hard data.

Markets' reaction

Financial markets remained volatile in April with both the VIX and MOVE indices – measures of US equity and Treasuries' stress – holding at quite elevated levels. Despite a better-than-expected Q1 2022 earnings season, global equity indices were significantly down during April with emerging markets (MSCI EM fell 5.6% in USD terms) outperforming developed ones (MSCI World fell 8.3% in USD terms). Within developed markets, the technology-heavy NADSAQ composite was the worst performer, dropping 13.2% largely driven by higher interest rates as well as by a number of high-profile earnings misses, European indices performed relatively well among developed equities, but were still mostly negative for the month with the DAX and the CAC40 indices falling 2.2% and 1.3%, respectively. Noteworthy is Spain's and Ireland's outperformance as their equity indices were at the top of the board after increasing 2.6% and 2.3%, respectively.

Bond yields kept rising in April as markets factored in additional interest rate hikes as well as the likely repercussions of China's lockdowns on holding inflation high for longer. The US 10-year Treasury yield, which had already increased by 51bp in March, soared by another 60bp to 2.93% – its highest level since November 2018. Similarly, 2-year yield jumped another 30bp to 2.71% after having increased 90bp in the previous month. , as investors reassess their tightening expectations in light of the more hawkish tone of Fed policymakers. European sovereign yields followed their American counterparts, with the German Bund increasing by 39bp to 0.94%, OATs up by 48bp to 1.46% and BTPs up by 74bp to 2.77%. In the meantime, however, the BOJ restressed its aim at keep its current yield curve control – with its 10-year JGB yield capped at 0.25% – in place despite the rising interest rates environment and the Yen's large depreciation (down 7% in April and almost 12% year-to-date).

Credit posted negative total returns and wider spreads during the month. But, although spreads widened significantly, they remained below the highs seen in March. Overall, spreads of US IG and HY increased by 12bp and 54bp, respectively, those of EU IG and HY by 21bp and 55bp, respectively, and those of EM IG and HY by 18bp and 26bp, respectively.

Table: Last Month Best and Worst Performers

Developed Markets Equity - LC		Fixed Income Sectors - LC	
Top 3 Markets in April	**Return**	**Top 3 Markets in April**	**Return**
- IBEX 35	2.6%	- EM Corp HY	-1.2%
- ISEQ Ireland	2.3%	- EM Corp HC	-2.1%
- OMX Copenhagen	1.9%	- EU IG	-2.7%
Worst 3 Markets in April		**Worst 3 Markets in April**	
- Nasdaq	-13.2%	- GLOBAL INF-LINKED	-6.1%
- S&P 500	-8.7%	- EM Sov HC	-5.6%
- MSCI World	-8.3%	- US IG	-5.5%
Emerging Markets Equity - LC		**Forex and Commodities - USD**	
Top 3 Markets in April	**Return**	**Forex**	**Return**
- Turkey Bist 100	9.6%	- DXY Index	4.7%
- Saudi Arabia Index	5.4%	- USD/EUR	-4.7%
- Jakarta	2.4%	- USD/GBP	-4.3%
Worst 3 Markets in April		**Commodities**	
- IBOVESPA	-10.1%	- Gold	-2.1%
- Moex Russia	-9.6%	- WTI	4.4%
- S&P BMV Mexico	-8.9%	- Bitcoin	-16.2%

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