

Chart of the Day

We entered 2022 expecting **higher structural volatility** than the prior year, but January well exceeded expectations across multiple markets. **Rapidly rising inflation, Omicron disruption, a more hawkish Fed and rising geopolitical risk** (Russia-Ukraine) all contributed to more challenging market conditions than anticipated.

USD credit markets posted their worst performance in the month of January on record (as measured by “excess returns”) with IG and HY each declining approximately 3% on a total return basis. Notably, **USD HY spreads** widened sharply by 53 bps to 363 bps on the month, well above expectations and surprisingly close to the high end of the 285 - 385 bps forecast range for the entire year. **USD IG spreads** widened by 12 bps to 110 bps on the month, also close to the higher end of the full year 85 - 125 bps forecast range for 2022. 10 year **UST yields** rose 27 bps on the month to 1.78%, while 10 year **German Bund yields** rose into positive territory for the first time since May 2019.

In **commodities**, **oil prices** rose 17.3%, the sharpest January increase in 30 years. **US equities** declined 5.3% in January, their worst month since the beginning of the COVID crisis in March 2020, with 10 of 11 S&P 500 sectors declining (all, except energy). The strong rally in recent days masked larger losses just days ago, especially for tech stocks. While the **NASDAQ** declined 9% on the month, its peak decline was closer to 15% on January 27. For now, the January drop in equities still looks more like a “correction” than the beginning of a new “bear market” period.

By comparison, **global currency markets** better absorbed the unexpectedly high volatility and uncertainty in January, as evidenced by the US Dollar’s 0.9% strengthening on the month.

Global Markets in January 2022



Credit Markets

10 year UST:
+27bps

USD HY OAS:
+53bps

USD IG OAS:
+12bps



Currency Markets

US Dollar Index:
+0.9%

EUR / USD:
(-1.2%)

USD / JPY:
+0.03%



Equity Markets

S&P 500:
(-5.3%)

NASDAQ:
(-9.0%)



Oil Markets

Brent:
+17.3%

WTI:
+14.5%



Geopolitical Risk

Ruble vs. USD:
(-2.9%)

Russian 5 year CDS: **+100bps**

Russian equities:
(-5.5%)

Source: FRED, Bloomberg. Data as of January 31, 2022.

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