

19 January 2022

- Treasury yields could surge past 2%, Goldman shares tumble after earnings
- Microsoft will need to deal with Activision scandal and
- German Covid cases soar.
- Microsoft corporate action

Here's what's moving markets.

Done Deal

Benchmark Treasury yields look poised to surge past 2% as traders lay bets that the Federal Reserve could opt for a super-sized rate hike in March. The 10-year yield has climbed 37 basis points so far in January to 1.88% on Wednesday -- set for its fastest monthly increase since November 2016. Rising yields and anxiety earnings growth is poised to slow dealt another gut punch to tech stocks, pushing the Nasdaq Composite Index to the brink of a correction.

Trading Trouble

Goldman Sachs shares tumbled the most in more than 18 months after the firm's stock traders posted a lacklustre fourth quarter, another sign that the frenzied market activity spurred by the pandemic is cooling. Despite rounding off their best year ever for both revenue and earnings, Goldman executives will need to address investor concerns that the trading business is on a downward trajectory. Moreover, the firm was the latest industry giant to report record-high annual expenses fuelled by soaring compensation and benefits costs.

Microsoft to Buy Activision Blizzard in All-Cash Deal Valued at \$75 Billion

Microsoft Corp. agreed to buy Activision Blizzard Inc. in an all-cash deal valued at about \$75 billion, using its largest acquisition by far to grab a videogame heavyweight that has been roiled by claims of workplace misconduct. The deal, if completed, would sharply expand Microsoft's already sizable videogame operation, adding a stable of popular game franchises including Call of Duty, World of Warcraft and Candy Crush to Microsoft's Xbox console business and its own games like Minecraft and Doom.

Microsoft said the transaction would make it the world's third-largest gaming company by revenue, behind China's Tencent Holdings Ltd. and Japan's Sony Group Corp. The deal is valued at \$68.7 billion after adjusting for Activision's net cash, Microsoft said.

Deal With It

The purchase of Activision Blizzard for \$68.7 billion will give Microsoft some of the biggest video games in consoles and smartphones and a beachhead in a possible next phase of computing, the metaverse. But first, Microsoft will need to deal with allegations that Activision underpaid women and allowed sexism and harassment to go unpunished. Failing to do so could make Microsoft a less hospitable environment for women and people from underrepresented groups and a less attractive place to work.

Spreading Fast

Germany joined countries like the U.K., France, and Italy in recording more than 100,000 new Covid-19 infections on one day, adding to evidence that the highly contagious omicron variant is spreading fast across Europe's largest economy. Still, omicron's grip on the U.K. economy is weakening, with falling Covid-19 case numbers mirrored by a drop in worker absences during the second week of January.

Mega Deal

Microsoft will buy Activision Blizzard for almost \$69 billion. It's easily the largest cash takeover of the pandemic and will make the computer giant the world's No. 3 gaming company. But the publisher, known for titles including Call of Duty and World of Warcraft, comes with baggage: claims of sexual misconduct and discrimination. Activision's current CEO Bobby Kotick — who has been tied to those reports — will continue in the role only until the deal closes. Some 37 people have "exited" the company and 44 have been disciplined in response to allegations, according to a Wall Street Journal report.

South Africa

JSE likely to trade lower in line with world markets

The local bourse is expected to reflect investor angst about higher consumer inflation and possible interest rates increases. The key area of focus for the markets is no longer if, but by how much, the US Federal Reserve will increase rates to counter inflation, which reached a 42-year high on an annual basis in December.

Exchange rates

| Latest Rates | Spot | Move |
|--------------|-------|------|
| USD/ZAR | 15.50 | ^ |
| GBP/ZAR | 21.07 | ^ |
| EUR/ZAR | 17.58 | - |
| CHF/ZAR | 16.90 | ^ |

The rand changed hands to the dollar at R15.52, down 0.16% on the day and backing away from its two-month high R15.29/\$ reached last week. Higher interest rates in the US and developed markets more broadly could destabilise the rand via capital outflows.

Asian markets were weaker on Wednesday, with Japan's Nikkei 225 index shedding 2%, after a weaker session on Wall Street, where tech stocks came under intense selling pressure.

"Companies that have high debt will have to pay more on their interest bill and this will affect earnings," said Gregory Katzenellenbogen, senior portfolio manager at Sanlam Private Wealth.

Small business confidence plummets

Business Partners says just 33% of SME owners surveyed are confident their businesses will grow in the next year

Business confidence among SA owners of small to medium-sized enterprises (SMEs) plummeted in the third quarter of 2021 as unfavourable economic conditions were worsened by load-shedding, high fuel prices and the Covid-19 pandemic.

Coming Up

- European stocks are set to join the global selloff, with surging Treasury yields raising the prospect of Fed tightening.
- Today, U.S. financials are in focus with Morgan Stanley and Bank of America reporting earnings.
- They're joined by UnitedHealth, Procter & Gamble and State Street in the U.S., with ASML and Sweden's EQT among the highlights in Europe. Burberry reports sales data, as do Pearson and JD Wetherspoon.
- There's inflation data from Canada, Germany, South Africa, the U.K., and Ireland. Bank of England Governor Andrew Bailey appears before the U.K. Parliament's Treasury Committee.
- And the Bloomberg Climate Resilience event begins, with speakers including with CEOs of AB InBev and Deloitte Global.

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