The day in the markets

What you need to know

- Wall Street sell-off resumes as geopolitical tension stays elevated
- Expectations of imminent US interest rate rise also weigh on shares
- Prospect of war-disrupted oil supplies sends Brent crude near week high

Oil rallied and a Wall Street stock sell-off resumed yesterday as traders assessed developments on Russia-Ukraine tensions and the impact of persistently high inflation.

The blue-chip S&P 500 index was down 0.6 per cent at lunchtime in New York, having closed up 1.6 per cent a day earlier on hopes of a de-escalation of the eastern European dispute.

But Jens Stoltenberg, Nato's secretary-general, said yesterday that Russian troop numbers were still rising near the Ukraine border, and the western security alliance was "prepared for the worst".

Mike Zigmont, head of research and trading at Harvest Volatility Management, said even without the upheaval of a war, a bullish case for equities would be a "tough one to argue" once investors turned their attention back to the US Federal Reserve.

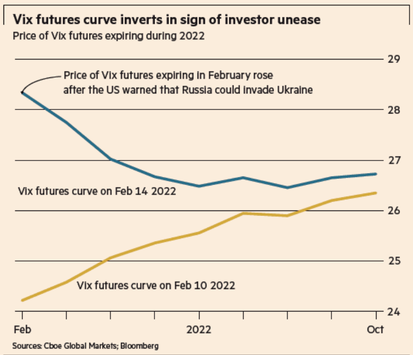
At the central bank's March meeting, economists expect the interest rate will be increased to tackle soaring inflation, which in January rose at its fastest annual pace since 1982.

"Investors should be ready for that kind of a policy change," Zigmont said. "I feel like they are not, however, and they will need to adjust as we approach the announcement."

The prospect of tighter oil supplies in the event of war sent Brent crude higher.

Vix futures curve inverts in sign of investor unease

Price of Vix futures expiring during 2022



Sources: Cboe Global Markets; Bloomberg

The global benchmark jumped 2.6 per cent to $95.63 a barrel, near its week high of $96.78, which was a seven-year peak.

In Europe, the region-wide Stoxx 600 index wavered between small gains and losses throughout the session to close broadly flat. London's FTSE 100 benchmark lost 0.1 per cent, while Germany's Xetra Dax shed 0.3 per cent and France's CAC 40 fell 0.2 per cent.

The Cboe's Vix volatility index, also known as Wall Street's fear gauge, surged as high as 32 this week in a sign of market stress, with the February contract trading at levels above expiring contracts for March, April and May. Futures contracts that expire months from now tend to trade at higher prices than near-dated ones because of a relative lack of visibility.

"[But] when that front end spikes, that is when you know there is real fear," said Matthew Tym, the head of equity derivative trading at Cantor Fitzgerald.

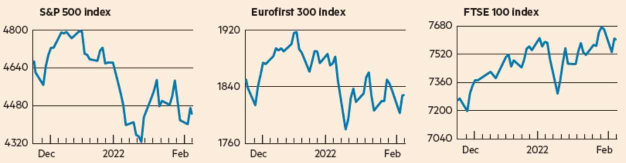
In government debt markets, the yield on the 10-year US Treasury note was steady at 2.04 per cent, while the yield on Germany's equivalent Bund fell 4 basis points to 0.27 per cent. **George Steer and Eric Platt**

Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	4445.76	1828.32	27460.40	7603.78	3465.83	115003.54
% change on day	-0.57	0.02	2.22	-0.07	0.57	0.15
Currency	**$ index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	95.922	1.137	115.430	1.358	6.335	5.159
% change on day	-0.070	0.088	-0.264	0.444	-0.201	-0.301
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	2.043	0.273	0.216	1.447	2.787	11.139
Basis point change on day	1.490	-3.300	0.490	-5.700	-0.900	-7.100
World index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	472.81	95.61	94.52	1848.55	23.29	4773.20
% change on day	-0.04	2.67	2.73	-0.94	-1.71	0.29

Yesterday's close apart from: Currencies = 16:00 GMT; S&P, Bovespa, All World, Oil = 17:00 GMT; Gold, Silver = London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets



Biggest movers

%	US		Eurozone		UK	
Ups	Wabtec	6.27	Klepierre	3.44	Polymetal Int	5.05
	Devon Energy	6.07	Arcelormittal	3.20	Fresnillo	3.67
	Cinnati Fin	5.53	Grifols	2.72	Shell	1.99
	Kraft Heinz (the)	5.23	Air Liquide	2.68	Sse	1.90
	Schlumberger	4.56	Repsol	2.65	Anglo American	1.88
Downs	Viacomcbs	-22.00	Schindler	-5.67	Royal Mail	-2.67
	Akamai	-7.20	Continental	-4.68	Diageo	-2.05
	Discovery	-5.31	Raiffeisen Bank Internat	-3.32	Compass	-1.96
	Discovery	-5.04	Vopak	-3.21	Electrocomponents	-1.83
	Illumina	-4.58	Deutsche Post	-2.45	Jd Sports Fashion	-1.69

Prices taken at 17:00 GMT. Based on the constituents of the FTSE Eurofirst 300 Eurozone. All data provided by Morningstar unless otherwise noted.

Wall Street

News it was returning money to shareholders boosted **Barrick**, the second-largest gold miner.

It announced a share buyback of up to $1bn, with president Mark Bristow declaring that its current stock price did "not reflect the value of the company's mining and financial assets and future business prospects".

The miner also raised its dividend following fourth-quarter results that beat Wall Street estimates. Quarterly earnings of $0.35 per share and revenue of $3.31bn were both above Refinitiv-compiled estimates.

Holiday rentals group **Airbnb** rallied after posting record profits as pandemic-restricted travellers sought destinations closer to home. For the fourth quarter, it reported net income of $55mn against a loss of $3.9bn a year earlier.

The group said the impact of Omicron had "quickly dissipated" and guests were already booking for summer.

A hefty earnings miss sent **ViacomCBS** tumbling. The media and entertainment conglomerate reported fourth-quarter EPS of $0.26, which was almost 40 per cent below analysts' estimates.

The company said it was also undergoing a rebranding, changing its name to Paramount Global to coincide with its push behind its streaming service Paramount+. *Ray Douglas*

Europe

Dutch supermarket chain **Ahold Delhaize** dipped despite posting what KBC Securities said was "another strong set of results, comfortably exceeding both sales and underlying [earnings] expectations".

Fourth-quarter net revenue of €20.1bn, which beat the broker's €19.4bn estimate, generated underlining operating profit of €838mn.

But what knocked the retailer's share price was its 2022 guidance, which forecast underlying earnings per share in the low- to mid-single digits against 2021. This was "driven primarily by a return to historical margin levels in 2022 compared with elevated 2021 levels", it said.

Belgian's **Umicore** rallied after reporting "all-time record revenues and earnings in 2021".

The group, which produces materials for solar cells, rechargeable batteries and catalytic converters, increased full-year revenue by 22 per cent year on year to €4bn.

Ericsson fell sharply on reports that the Swedish telecoms group might have made payments to Isis militants in Iraq. An internal inquiry had "identified payments to intermediaries . . . in connection with circumventing Iraqi customs, at a time when terrorist organisations, including Isis, controlled some transport routes", it said. *Ray Douglas*

London

London-listed pharma group **Indivior** surged after reporting "strong" full-year results, said Numis. Operating profit in 2021 hit $213mn against a loss of $156mn a year earlier while net cash stood at $853mn, up from $623mn in 2020.

Driving much of this performance was the take-up of Sublocade injections, Indivior's opioid medication, which generated net revenue of $244mn, "putting us on track to meet our $1bn+ annual net revenue target", said Mark Crossley, chief executive.

He added that Indivior was considering a listing in the US. "Our preliminary view is that an additional US listing is likely to be beneficial to the group's profile and visibility, as approximately 80 per cent of the group's net revenue is generated in the US," said Crossley.

Car retailer **Vertu Motors** rallied on news that one of its brands, Macklin Motors, had been awarded the Toyota franchise in the west of Scotland from April this year. Vertu planned to develop four dealerships in this territory, with the first at Darnley, south Glasgow, opening in just over a month.

Facilities investor **Primary Health Properties** climbed after lifting its 2021 dividend to 6.2p per share from 5.9p a year earlier, following "another strong year", said Harry Hyman, chief executive. *Ray Douglas*

US GDP data and puzzle of missing capital spending

Matthew Klein

Markets Insight

There is a puzzle buried deep in the US economic data that matters for investors. According to the balance of payments figures, which cover trade and other cross-border transactions, American consumers, businesses and the government collectively spent about $800bn more than they earned in 2021.

The national data on saving and investment by sector, however, imply that the gap between income and spending was only about $300bn. That leaves a "statistical discrepancy" of about $500bn, or roughly 2.5 per cent of GDP. This is the largest ever recorded difference between the two measures of the US current account deficit.

There are only three explanations. One is that the balance of payments data are overstating the current account deficit. Or, it could be that national income is being overstated, or domestic spending is being undercounted. While all three are possible, the likeliest is that corporate capital spending is being undercounted, perhaps by as much as 15 per cent.

The Bureau of Economic Analysis usually attributes the entire "statistical discrepancy" to difficulties in estimating both US corporate profits after taxes and dividends (or "net saving") and investment spending. Data on government budgets, household income and spending, exports and imports, and foreign investment income are all thought to be less prone to error.

According to the latest official numbers, businesses generated about $1tn in profits after taxes and dividends from their US operations in 2021, and spent just $420bn on capex net of depreciation.

In 2019, both "net saving" and "net investment" were just shy of $700bn. The numbers therefore imply that "net saving" was up by nearly 50 per cent compared with 2019, while "net investment" was down by almost 40 per cent.

As a result, "net lending" (saving minus investment) by US businesses, which equals their combined contribution to the US current account balance, has ostensibly ballooned from roughly zero before the pandemic to almost $600bn in 2021.

But that would be wildly inconsistent with the balance of payments data, assuming the numbers on household saving and government borrowing are broadly accurate, and they probably are.

> Business investment and profits had been understated because of the way of measuring depreciation

The question is whether the implied measurement error is attributable to the profit side of the equation, the investment side, or both.

While BEA's house view is that the "statistical discrepancy" generally reflects difficulties in counting profits, the government's current estimates are broadly consistent with what public companies have been reporting to investors. It is possible, but unlikely, that those earnings reports are wrong.

It is even less likely that US businesses' "net lending" and the current account deficit have both been overstated because the BEA has somehow missed a 50 per cent surge in profit-shifting to foreign jurisdictions. The most plausible explanation is therefore that capital spending before depreciation is being undercounted.

This would not be the first time that the government has been missing business investment due to methodological limitations. In 1986, the BEA boosted its estimate of the yearly average growth rate of business spending on durable equipment by a whopping 5 percentage points after revising how it measured price changes of computers. The BEA did not count software purchases as business investment until 1999.

Similarly, it was not until 2013 that the BEA decided to count R&D spending as investment. In 2018, the BEA concluded that both business investment and profits had been understated because of the way they had been measuring depreciation.

More recently, the economists David Byrne, Carol Corrado, and Daniel Sichel have convincingly argued that spending on cloud computing capacity is being improperly classified as business consumption of intermediate inputs, rather than as investment in new fixed assets.

Missing investment from the data would help explain the US economy's relatively robust demand for imports relative to domestic demand. More importantly, it would help explain why profits have continued to grow.

As the business forecaster Jerome Levy recognised more than a century ago, capital spending is the only sustainable source of profits for the economy as a whole, because the buyers get assets that depreciate slowly while sellers get income immediately.

The writer is publisher of The Overshoot research service and co-author of Trade Wars are Class Wars