



## **CIO OFFICE MORNING MARKET WRAP – Monday 1<sup>st</sup> February 2021. ALSO AVAILABLE ON ALEXA.**

We start February at almost the same levels for most equity indices where the year began, barring emerging markets which have risen 3% in January. Leading returns within EM, are China and the UAE. We see any broad pullbacks as a buying opportunity as we are overweight equities with a bias towards emerging markets. It is not possible to time the market and though we see no extreme catalyst currently in sight, drawdowns of at least 10% on global equities have occurred almost annually since 2000. January saw a drop of just 4% from peak levels and equity indices managed to retain 2020 gains.

This morning in Asia Japan equities are trading up by almost a percent with Hong Kong up +1.5% and the Shanghai Composite Index is flat. China has seen a resurgence of the virus in pockets which means traditional Lunar New Year travel will be curtailed. UAE indices lost close to a percent yesterday, in line with global market's Friday pullback. Ten year treasuries are little changed with the yield at 1.08%. Brent oil futures are also little changed hovering around the \$ 55 mark. Gold is trading slightly up at \$1862 and silver the next in line on the retail radar screen with record flows into ETFs on Friday, is at \$28.6 up by 7% this morning. On the virus front the US reported a slowdown in the number of new cases and India reported a sharp drop. Global cases are now at 101 million.

On the vaccine front whilst the UAE and Israel lead as a percentage of the population vaccinated, the UK and US rollout has become more robust with almost 30 million people in the US now vaccinated. The pickup in corporate profits and global demand indicate strong upside for equity performance in 2021, albeit a few bumps along the way. A busy week for Q4 earnings with initial results (30% of companies having reported in the US, 10% in Europe, and 17% in Japan so far) pointing to strong earnings beats in both the US and Europe. In the US EPS growth is running at 4% with revenue growth 1%. Earnings have surprised by 20% and revenue by 4%. In Europe Q4 EPS growth is at 9%, surprising positively by 19%. On the macro front however it's been a bit disappointing. Japanese manufacturers reported a drop in output in January as output and employment fell with a rise in coronavirus infections in the country. The au Jibun Bank Japan manufacturing PMI fell to 49.8 in January from 50 in December. Firms however reported a stable level of new orders. The China Caixin survey which tracks smaller, state-owned enterprises showed export orders fell for the first time in six months as companies reported a resurgence in infections globally hit demand. The Caixin/Markit manufacturing PMI fell to 51.5 from 53 at the end of December. This is in line with the official manufacturing PMI released over the weekend, which fell to 51.6 from 51.9 in December. The official PMI tracks larger, state-owned companies.

Last week's Reddit inspired short squeeze of over shorted stocks in the US brings to the fore the importance of social media impact on markets. A combination of lockdowns, record disposable income and savings, low trading fees and margins along with ease of use have driven rising retail stock market participation. The internet has also played a pivotal role with the availability of online trading platforms with social media posts propagating new trade ideas. This retail trend could get further impetus from additional stimulus.

Busy week for earnings: Alibaba, Alphabet and Amazon report Tuesday, while BP, Exxon and Shell are next along with Nomura, Deutsche Bank and Pfizer. The Reserve Bank of Australia's policy decision comes Tuesday. Wednesday EIA crude oil inventory report. The Bank of England sets rates on Thursday and we also get the Reserve Bank of India policy decision. The U.S. January payrolls report is due Friday, providing a first look at hiring in 2021.

Stay safe.

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