



**CIO OFFICE MORNING MARKET WRAP – 1st July, 2021.
ALSO AVAILABLE ON ALEXA.**

A very good first half for global markets with Developed markets (+13%) maintaining an almost uninterrupted trajectory of gains from both European and US equity indices. Emerging markets (+7.5%) in comparison had lower gains, as they have a large weight of China equities which reversed their euphoric start in Jan 21, ending the first half flat. India ended H1 with the Sensex +10.5% while the outstanding EM performers were GCC countries, the UAE and KSA. Whilst yesterday saw small gains for the Abu Dhabi Index, it is up 41% in H1 and the Dubai Index slightly down yesterday, closed H1 at +16%. Global equities have rallied on very strong earnings growth in Q1, expected to be continued for the balance of the year, with estimates for full year 2021 for 30 to 50% EPS growth across EM to DM economies. Record inflows into equities.in H1 are also supportive.

Global economic growth estimates have been revised up, the reopening of vaccinated countries has led to strong PMI's and sovereign bond yields after a brief tantrum have settled, as inflation fears are seen as being transitional. Gold is a percent lower from where it began the year, currently at \$1672 while Brent oil has gained 44%, trading at \$74.79/ barrel this morning as demand outstrips supply as mobility numbers clearly illustrate the pick up in road and freight traffic. Oil futures continue to rally on the back of data showing U.S. supplies falling

at the fastest rate in decades. Over the last four weeks total inventories have fallen at a rate of 1.15 million barrels a day, the largest four-week drop on a rolling basis in EIA data going back to 1982. OPEC+ ministers meet today. An August hike of 500,000 barrels a day is priced in, so any variance to either side of that figure would be a surprise.

However, whilst new technologies have ensured a quick roll out of vaccines new variants remain a threat as does any inflation driven by input costs including commodity prices or energy affecting currently record corporate profit margins. A strong continuing recovery in consumer demand with rates still low remains constructive for gains in equity markets, though with valuations higher than long term averages expect H2 to be positive but not at the same scale as H1. The Global Economic Policy Uncertainty Index is at its lowest level since 2018. ADP data in the US Wednesday beat the estimate, with private-sector employers adding 692,000 positions in June though the labour markets remain tight as demand outstrips supply in many categories of jobs.

Slight gains for US equities yesterday, the S&P 500 has mirrored Q1 gains in Q2. Whilst Q2 saw the rally of energy and financials continue, Real Estate, Tech, and Telecom picked up. Utilities is the only sector in the red for the second quarter. European markets closed lower yesterday with Delta-variant headlines dominating and the Bank of England's Haldane had a hawkish speech warning on the potential for runaway inflation. But in line with the US, European equities also had a good Q2. Whilst value made a rebound in 2021, Q2 was positive for growth sectors which rebounded, the Nasdaq which had almost no gains in Q1, rose +11.2% in Q2, in line with the 10 Year Treasury yield which moved from 1.74% to 1.47%.

Stay safe.

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