



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

Global equities finished the week lower, but the month of July higher, with markets influenced by various factors: the spreading Delta variant, China's recent crackdown on overseas listed corporates and for-profit education companies, Q2 earnings, the Fed's continuing accommodative policy and economic data around Q2 GDP releases. Year to date, developed market equity performance leads emerging markets by 15% with EM performance flat for the year, post a 14% fall in China's main equity Index in July. The week saw a small shift to safe haven assets with the yield on the 10-year US Treasury falling to 1.22% and gold at \$1814, up slightly. The Fed has been buying \$120bn of bonds each month through the pandemic, continued its accommodative stance and said that the economy was making "progress" but it remained too early to tighten monetary policy. Though COVID cases have been rising, the effect of vaccinations is seen to soften the impact and while international travel could continue to see constraints, domestic mobility numbers remain up. Oil prices are holding up with Brent at \$75.41 at the end of the week.

Markets with a positive week were the UAE and the KSA, with higher oil prices supportive and the UAE buoyed by strong bank earnings on higher fee income and lower impairments. The banks saw lower than expected loan loss charges.

For Q2, 55% companies in the Stoxx 600 that have reported have seen earnings growth of 140% y/y and the 50% on the S&P 500 that have reported have earnings growth of 90%. Record profit growth but not record profit as expectations for the rest of 2021 and 2022 are in the double digits. US tech companies which generate 60% of revenue from overseas are a contrast to China's domestic focused tech giants and should see further traction post bumper revenue and earnings growth. However, forward guidance cannot be anything but cautionary with last quarter profits on an average doubling for the big 5 US tech companies, off a low Q2 2020 base, the height of the lockdowns. All but Amazon beat expectations on cloud, digital ads sales and for Apple i-phone and i-pad sales. The more cyclical European market's mining and oil and gas companies had some with profits +200% y/y and more significantly increased dividends and buybacks.

US economic growth rose slightly in the second quarter to 6.5% on an annualised basis, a smaller than expected increase as was data from the US commerce department which fell short of economists' forecasts. However, output is back above its pre-pandemic level for the first time since Covid-19 began, and economists expect strong growth for the rest of the year. China topped its pre-pandemic output level last year and the US did the same in the latest quarter, but eurozone GDP is still 3% below its pre-crisis level, expected to catch up by the end of this year. The eurozone economy grew 2% in Q2 q/q, a strong signal that the eurozone is on the road to recovery. All but Germany outperformed economists' expectations with supply constraints, possibly holding back growth. This pushed up prices of manufactured goods; eurozone inflation was at 2.2 % in July.

Whilst China company fundamentals are attractive, with the main Index at low valuations and earnings growth in the 30% range, till there is clarity or assurance on what the regulatory authorities plan with regulations on overseas capital listings getting tighter on data privacy concerns and social economic issues taking centre stage, international investors will probably stay away. Over the long run, China is an important member of the world economy contributing to c.16% of global GDP. Our positioning is a higher overweight to developed market equities and in the emerging market region whilst we maintain a small overweight, we have been neutral Asia since last month.

Stay safe.

MAURICE GRAVIER
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