



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

The first trading day of the month has Japan's Nikkei with a strong open, domestic China equities flat and the Hang Seng Index down a percent, weighed down by property developers. Will U.S. and European markets, when they open later in the day continue their very upbeat October performance, with valuations well supported by strong earnings and continued record inflows with liquidity tailwinds but market exuberance increasingly tempered by cost input pressures? Oil is trading very slightly lower as OPEC+ faces pressure to boost output. Gold steady at \$1785. Cryptos, Bitcoin and Ether trading down marginally.

U.S. 10-year Treasury yields are up 2-3 bp to 1.58% and the 2 year at 0.52%. Concerns about energy costs and inflation, is putting pressure on central banks to accelerate policy shifts, and increasing concerns about a policy mistake as central banks tighten into slowing economies. However, highlight the distinction between tapering and tightening. Big week of central bank meetings coming up which may reveal how pervasive inflation concerns are with the Fed expected to make a taper announcement Wednesday. Consumer confidence has fallen the past few months, not just due to the Delta variant and, surveys indicate that lower-income consumers are worried with inflation at double-digits in necessities like food, energy, housing and healthcare.

UAE markets were flat yesterday and KSA equities down half a percent. Following Chevron and Exxon strong earnings, Saudi Aramco the world's biggest oil producer reported its highest quarterly earnings since its 2019 IPO, benefiting from resurgent global oil demand. 3Q Net income was \$30.4bn up from \$11.8bn a year earlier, with Aramco currently the most profitable company globally. KSA reforms and

incentives are leading to strong FDI and foreign companies setting up operations in the largest GCC nation (35 million). The KSA has pledged to cut carbon emissions to net zero by 2060, while also maintaining its role as a leading producer of oil and gas.

China's manufacturing PMI came in at 49.2 for October, the second month of contraction as the property sector downturn, high commodity prices and energy shortages/ electricity supply disruptions affected industry. The surveys showed "inflationary pressures continued to escalate" with price rises for industrial inputs including petroleum, coal, chemical materials and metals, As the Premier focuses on the agenda of "common prosperity", the aggressive regulatory overhaul has had its effect on property, ecommerce, gaming, entertainment and education. But the poor economic data could herald a softer policy approach, particularly for the property sector, which has also been hit by debt problems at developer Evergrande.

Stocks that defined the week: Apple and Amazon confirm that supply chain, a lack of components and wage pressures are costly, whilst McDonalds raises prices on higher wage and food costs, Tesla stock up 48% in October as Electric Vehicles finally come of age – fitting with the COP26 in progress, however Chevron with profits at pre pandemic levels indicates that fossil fuels oil remain a significant generator of energy and Facebook going "meta" to reflect growth opportunities beyond its social-media platform in online digital realms. Another important week of earnings for the U.S. 56% of S&P 500 companies have reported and for Q3, the blended earnings growth rate is 36.6% well above the 5-year average earnings growth rate of 11.8%. The blended net profit margin is 12.8%, above the 5-year average of 10.9% and companies with more international revenue exposure are reporting higher earnings and revenue growth than companies with more domestic revenue exposure, so the stronger dollar has not been detrimental.

G20 leaders in Rome have made little progress on climate policy though the huge attendance at the COP26 in Glasgow should ensure better accord.

Stay safe.

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