



**CIO OFFICE MORNING MARKET WRAP – Tuesday 2nd February 2021.
ALSO AVAILABLE ON ALEXA.**

February has on its first trading day seen a global equity rally with lower volatility and technology once again taking leadership. Global equities gained 1.5% with emerging market equities up 2.4%. Vaccine progress remains in focus with lower hospitalizations providing optimism. Asia closed higher and the region shook off poor PMIs from China/Japan and the military coup in Myanmar. India looks to reset its economy post-COVID with a budget focused on growth. UAE equities gained with the Emaar group stocks in the lead yesterday, but banking stocks have shown more consistent gains. The USD was firmer vs the Euro, Yen, and Pound. Treasuries were slightly firmer; the U.S. 10 year yield is at 1.08%. Oil gained 2.4% and Brent futures are at \$56.9 this morning. Gold is steady at \$1856. Silver had its best day in over 12 years and finished up 9.3% yesterday driven by retail bets but has lost some of that momentum today and is trading down at \$28.3. This morning Asia again opens strongly and Japan and China are up a percent and Hong Kong almost 2%.

While returns for global equities and bonds were flat to negative in January, divergence was clear, with gains in EM equities, global small caps and energy against losses in value stocks and staples. Volatility was extreme, the VIX Index had the worst

percentage (45%) increase in January since 1991. Commodities rallied, even as USD was the best-performing G10 currency in January. The month ended with the Reddit and social media fuelled rally sparking a volatile wave of trading and rocking a large number of hedge funds. Many of the stocks popular with the Reddit community fell sharply yesterday.

U.S. equities, the S&P 500 +1.60% and the Nasdaq +2.55%, begin February back in the green following last week's sell-off. All sectors finished up on the day with semis a stand out. President Biden agreed to meet with a group of ten Republican Senators who have drafted a bill of \$618 billion in response to the President's \$1.9 trillion relief package; On the macro front Markit PMI Manufacturing for January 59.2 vs 56.6 estimated and ISM Manufacturing 58.7 vs 60 estimated.

Indian equities, the Sensex Index gained 5% yesterday with banking the largest beneficiary, post the budget announcement which plans higher government spending, bank privatisation, liberalisation of the insurance sector and protective tariff increases. 10-year bond yields spiked 15 bps to 6.06%. The Indian Rupee is little changed at 73.08. The budget had a clear and decisive agenda, driving economic growth with no significant tax measures. Financial sector reforms include an asset management company to take over stressed assets of banks and divestment in two state-run lenders. Capital investment to be boosted to \$ 75 bn. The government plans to borrow an additional \$11bn from the financial markets. Fiscal deficit of 9.5% of GDP in the current fiscal year, above the 3.5% targeted and target is 6.8% for the next fiscal year. The IMF estimates India's GDP will grow 11% in 2021, after an 8% contraction in 2020. But as lockdowns have eased, manufacturing activity is back to pre-pandemic levels, although services still lag.

Results today include Alibaba which has been in the headlights recently with regulatory concerns over its ecommerce monopoly and the pulled Ant Group IPO on account of enhanced capital requirements for payment platforms. However, tech stocks in Asia have more than recovered last years end of the year pull back with Tencent at record highs. 111 S&P 500 companies report this week. Alphabet Googles parent company and Amazon report today and expectations are high after the other FAANG's blockbuster results.

Stay safe.

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