



CIO OFFICE MORNING MARKET WRAP – Tuesday March 2nd, 2021. ALSO AVAILABLE ON ALEXA

This morning Asian equities are slightly negative, after a broad risk on day for markets globally yesterday with global equities up 2%, almost wiping out last week's 3% fall. Global stocks have started March on a high note after last week's flip-flop, most noticeably in the technology sector as the rise in Treasury yields had applied pressure to more growth-oriented sectors. The gains for global equities came as core government debt rallied. The yield on the 5-year US Treasury, fell 0.03 percentage points to 0.70%, while the yield on Germany's 10-year Bund slid 0.07 percentage points to minus 0.34%. The yield on the US 10-year note is currently at 1.40 (up 53% this year), although well below the 12-month high of 1.61% reached intraday last week. Equity markets were up as positive macro data supports the thesis that last week's surge in yields was driven more by prospects for stronger real economic growth and reducing concerns that a broad economic recovery could spur inflation, leading to central banks withdrawing their record monetary policy support. Brent oil futures

are down this morning, \$62.7 ahead of a key OPEC+ meeting this week. Gold spot price is also down at \$1,711. The USD is firmer vs the Euro, Yen, and Pound.

Yesterday in Asia, Japan equities were up 2% and China and Hong Kong indices up over 1.5%. In media reports China is “very worried” about bubbles in overseas financial markets, as stated by the China Banking and Insurance Regulatory Commission Chairman. Indian equities are up this morning after gaining over 2% yesterday. UAE indices closed flat, though the telecom sector continues to rally. The Asia rally continued Westwards with European and UK equities up close to 2%. In the US, the S&P 500 Index rose 2.4% while the Nasdaq was up 3%. Sector participation was broad - Financials, Technology, and Energy were the market leaders. Much of the day’s rise may be attributed to the continued optimism of a robust second-half 2021 economic recovery. The optimism was further supported by vaccine news as Johnson & Johnson joins the supply rollout with its single-shot COVID-19 vaccine and highly commendable as a non-profit initiative. On the economic front, strong global manufacturing reports with the highest level for the ISM Manufacturing Index in the US, in the last 3 years. ISM Manufacturing beat: 60.8 vs 58.8 est. and construction also beat while PMI Manufacturing for February reported slightly below consensus: 58.6 vs 58.8 est.

The biggest beneficiary of rising yields are financials as more expensive and high growth areas of equity markets see reduced value of future cash flows. However, this comes after a difficult decade for the banking industry with tighter regulation, increased capital requirements, cost-cutting, record fines and a prolonged period of negative and ultra-low interest rates. In the short-term, banks should benefit from a reflating global economy that increases demand for loans and pushes interest rates higher, boosting the profits on lending. In the longer term, financials should benefit from greater cost efficiencies from the digitization of services

On the virus front, global cases rose for the first time in almost two months in the past week, according to the WHO, citing countries easing restrictions and variants spreading. At the same time optimism on reopening of restaurants, airlines and cruise travel is reflected in a rally in the recovery trade. COVID winners were however also winners with yesterday’s tech gains led by Apple and post market video communication Zoom reported strong growth in profits. Stay safe.

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