



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

Wednesday was a quiet start to September for financial markets. Global stocks were up 0.4% on average across regions while interest rates were stable. OPEC+ group met yesterday and decided to proceed with the planned production increase in October: the hike will be 400,000 barrel-a-day. This wasn't unexpected and at the same time, the US EIU reported a significant drop in domestic crude inventories. This was not enough however to support oil prices after their sharp appreciation of the recent weeks: the price of Brent crude fell 2.3% to close at \$71.3.

A rafale of monthly manufacturing indicators was released yesterday. After the disappointment in Chinese numbers, manufacturing PMIs were in line with expectations, which means, at a very high level, in both the Eurozone at 61.4 and the UK at 60.3. The threshold between expansion and contraction is 50, there is no ambiguity. The US equivalent delivered a positive surprise: the manufacturing ISM for August reached a robust 59.9, beating the median forecast of 58.5. New orders, the most forward-looking component, was up compared to July, from 64.9 to 66. By contrast, the price component was softer than expected, indicating the possibility of a deceleration of prices, even if the absolute number at 79.4 remains impressively high.

Overall, the big picture from the PMI releases shows a dichotomy between developed regions, keeping a steady momentum, and emerging economies, which are getting closer to stagnation. The current bottlenecks in supply chains are a partial explanation. This was clear in Korea's export numbers also released yesterday: a rise in prices, rather than volumes, was the driver behind the monthly 1.8% progression. In China, the probability of more economic stimulus looking forward is rising. "Common prosperity" starts with prosperity. With regards to the West, the most important factor monitored by authorities is employment. To that extent, yesterday's monthly US job creations according to ADP were much lower than expected. However, this ADP data is just an indication. What matters is Friday's monthly non-farm payroll number. The consensus expects 725k new jobs, compared to 943 in July. Any material surprise could affect anticipations for the Fed's tapering timing. This is the most important number of this week which is definitely dominated by macro data. In the meantime on the virus front, recent data was not that bad, with some hopes for a plateau in new infections globally, and a decline in US hospital admissions.

Against this backdrop as we write this morning, Asian markets are relatively quiet. Stocks are flat in Japan and slightly down in Korea. In Hong-Kong, the session started with an initial continuation of the recent rebound of the tech sector. It didn't last, as criticism on ride-hailing firms just came out, which is of course seen as a risk of another bit of pressure from authorities. Futures on Western stock markets and interest rates are roughly flat, and so are oil prices. Crypto assets are back in the green after a few days of consolidation, with bitcoin approaching the \$50,000 mark again and Ether at \$3,750 reaching the 400% year-to-date appreciation mark again.

Fundamentally speaking, there are two global questions currently in the market. The first one is the hope that the delta-variant wave might peak, the second is about the timing and implications of western central banks' reduction in stimulus. We are quite constructive on both, but acknowledge that equity valuations already discount a lot of good news. Fortunately, earnings growth is mechanically reducing valuation multiples but absolute upside potential remains limited in developed markets in the near term. Emerging markets provide incomparably better perspectives for the long-run, but their short-term outlook is clouded by the virus, China's regulatory crackdown and disruptions in global trade and supply chains. The key EM question is all about Chinese economic policy with two opposite forces: the positive top down impact of a potential increase in stimulus, and the drag from regulatory crackdown on sectors which are highly represented in financial markets. Bottom line, we remain reasonably confident but keep on expecting short-term volatility, and potential turbulence when interest rates start to rise.

Friday will bring the crucial US monthly job report as well as the important non-manufacturing PMI.

Stay safe.

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