



## **CIO OFFICE MORNING MARKET WRAP – 3rd August, 2021. ALSO AVAILABLE ON ALEXA.**

Asian equities lower this morning with China tech selling off. The Hang Seng Index has lost 20% from its February peak and down 1% this morning with Tencent shares down 10%. The Nasdaq Dragon Golden China Index which follows the main China companies listed in the US has fallen 20% in just a few days and 40% from its February peak as scrutiny and restraints increase on China companies listing in the US from both China regulators and the SEC. Chinese stock valuations in affected sectors are now at a substantial discount relative to history and technical indicators also show oversold levels, however we would recommend a broad EM positioning rather than trying to catch the China sell off bottom or time an entry. However, would maintain allocations as per asset allocation benchmark allocations as in the mid to longer term the underlying growth metrics of domestic are attractive with their premium to US peers and their low correlation with the rest of the world. Asia's equity sell off today follows an up day yesterday which saw the more domestic Shanghai Composite Index and Japan gain close to 2%. Australia gained 1.3% with help from M&A (Square buying Afterpay). The commodity heavy Australian market has had 10 straight months of gains. European markets closed higher with strong earnings continuing (EuroStoxx 600 companies on track for +133% EPS growth in Q2). Treasuries mixed with some curve steepening.

US 10 Year Treasury yields continue holding below 1.25% at 1.18% and the real yield at record lows. Tighter labor markets, alongside further progress toward passing an infrastructure package could be pre-conditions for higher yields. Dollar a bit weaker on the major currency crosses. Gold off 0.4% to \$1811. Oil Brent futures down at \$72.9 a barrel.

UAE indices made small gains yesterday continuing a year long uptrend: the Abu Dhabi Index with over 50% total returns in 2021 year to date aided by a broader market with the new listings, Ychsat and Alpha Dhabi. KSA equities also at a 52 week high.

US equities had S&P 500 slightly down yesterday following macro data misses in ISM (59.5 vs. 61.0 survey/60.6 prior) and Delta-variant concerns across markets. Technology was flat and Semiconductor stocks rallied and the SOXX made a new record. Another very busy week of earnings ahead with 148 S&P 500 companies reporting. As of last Friday, just under 60% of the index had reported with the blended growth rate at 85.1%, and on track for best performance since Q4 2009.

Mixed coronavirus headlines with US cases over 100,000 a day, while Fauci said the US won't enter another lockdown and formal approval for vaccines expected in the next month and vaccination numbers pushing higher with the US reaching its target level of vaccination, 70% of adults with atleast one jab. Fed's Brainard said labor market has not met threshold for tapering but on track to do so by end of year. The end of housing eviction moratorium and looming benefits cliff both look to end by September. The Senate group on Sunday finalized legislative text for bipartisan infrastructure bill with \$550B in new spending. Infrastructure bill has no tax hikes but the \$3.5T bill could bring broad increases for corporations and high-net-worth individuals.

Other macro headlines: China official manufacturing PMI and Caixin manufacturing PMI for July both missed expectations. Eurozone manufacturing PMI revised up in final July reading. South Korea exports hit a record level in July but slightly below consensus. German retail sales up much more than expected for second straight month in June.

Stay safe.

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