



CIO OFFICE MORNING MARKET WRAP – 3rd October, 2021. ALSO AVAILABLE ON ALEXA.

September ended for not only those in the UAE but millions of watchers globally with the most inclusive opening of the Expo 2020, a musical and sensory extravaganza with powerful visuals beamed across Al Wasl Plaza's dome, the world's largest 360-degree projection screen. Signs of rebounding visitor arrivals and an increase of permanent residents with rents and real estate prices on the upswing. Traffic back to pre-pandemic levels. And amongst the best performing equity markets year to date, though September a mixed performance with Dubai equities losing close to 2% and Abu Dhabi equities flat in line with global market performance.

September was a volatile month for global equity markets, not uncommon as per statistical data, but historical patterns are not market predictors. Definitely, the world is more relaxed about the virus but a number of factors led to last month's market downturn. For developed markets it is the approaching reduction of fiscal and monetary stimulus with a corresponding rise in sovereign bond yields, already strong year to date performance with valuations priced to perfection and inflation and supply chain worries increasing and not receding with demand/supply imbalances as the world reopens. Emerging markets had China overseas listed companies, particularly in the tech payment space or those with a large number of users continue to see increasing regulatory scrutiny.

A common worry for EM and DM is rising energy: oil, natural gas and coal costs and shortages. Brent is up around 50% year to date closing Friday at \$79/barrel. In September global equities fell -4%, the S&P 500 -4.8%, Eurozone -5.9% and China -2.6% whilst the U.S. 10 year treasury yield rose 13% to 1.48%. We expect equity markets to remain in this range and anticipate slower gains and more persistent volatility with peak earnings and economic growth for the developed economies having been achieved in Q2, though the higher base itself forms a constructive backdrop. An expected 27% y/y EPS growth for S&P 500 companies in Q3 is a pretty good number following 88% in Q2, with even higher expectations for Eurozone earnings growth. Emerging markets have different stories with China on a longer term trajectory of common prosperity and India quick to take the baton and welcome foreign investment and technological advances, reflected in their year to date market performance with the MSCI China Index -17% and MSCI India +26%.

Last week, was negative for most markets, though the US had an up day on Friday and has begun October well. President Biden signed a bill Thursday evening extending government funding through Dec. 3, averting a partial shutdown hours before current funding expired at midnight having passed the House and Senate with bipartisan support earlier in the day. House Democrats dropped plans to vote on a \$1 trillion infrastructure bill, as they did not reach an agreement around a separate social policy and climate package. U.S. consumer spending rose 0.8% in August supportive of the U.S. economic recovery. Separate US data showed that core personal consumption expenditure — the Federal Reserve's preferred inflation measure, which strips out food and energy costs — rose 3.6% in August y/y. Last week saw China equities gain 0.4%, very small but a nice turnaround from the continuing negative news flow. Lingering worries over China Evergrande and real estate leveraging remain. The A share market is closed for the national holiday week from Oct 1st to 7th.

Inflation worries globally remain centred around rising energy costs, chip shortage and labour. The continuing semi-conductor shortage is likely to cost the global auto industry \$210 billion in lost revenues this year, with US September sales 25% below last year's according to some studies and there is an emerging view that the chip shortage in the automotive supply chain could take years to fully overcome. Tesla, the most valuable auto maker in the world, is however on track to achieve a growth rate of 50% over last year's 500,000 deliveries.

Watched closely will be the US: ADP's September private sector employment report, and jobless claims for the week ended October 2, September nonfarm payroll report, with the unemployment rate expected to dip to 5.1% from 5.2%. Lots of global Service PMI reports and Monetary policy decisions from Australia and India—and a speech from European Central Bank President Christine Lagarde.

Stay safe.

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