



## **CIO OFFICE MORNING MARKET WRAP – Monday 4th January 2021. ALSO AVAILABLE ON ALEXA.**

The first markets to start trading in 2021 are the GCC, with the first trading day yesterday. Both the Dubai and Abu Dhabi Index gained close to half a percent, while the Saudi Tadawul Index declined by less than a percent. Stocks in the UAE are benefiting from hopes of a quicker economic recovery, tracking the global equity rally on optimism surrounding the rollout of coronavirus vaccines. The UAE has been in the forefront of approving vaccines: both the Pfizer/ BioNTech and the Sinopharm shot have been rolled out. The UAE equity market is attractive from a valuation and dividend yield standpoint and the recovery in oil prices, Central bank support, management of supply in the real estate market and improved geopolitical relations should boost UAE stocks this year.

This morning in Asia the USD is slightly weaker, gold is up to \$1922 and the 10-year Treasury Yield is up at 0.94%, indicating a mixed stance on risk. Japan equities are down by 0.7% as the country may see a new state of emergency after Tokyo reported a fresh daily record of new virus cases. Shares are trading lower in Hong Kong and up in China. Chinese oil majors may be next in line for delisting in the U.S. after the New York Stock Exchange said last week it would remove the country's three biggest telecom companies. In Hong Kong, the last week of December saw a sell off and then a recovery in China's technology giants with Alibaba shares affected by the regulatory scrutiny of Ant Group, Alibaba's payments-focused sister company. The moves by Beijing indicate a "turning tide in tech regulation".

2020, one of the most volatile years on record saw investments into everything from bitcoin to EV start-ups and tech IPOs (reminiscent of the dot.com bubble, yet different as these companies have demonstrable business models), as investors expect that a powerful economic comeback will support further gains in markets. Risks remain as countries continue to see an increase in cases of the virus. though vaccine rollout is robust, it is yet in early stages. Potential speed bumps on the US horizon include a pair of Georgia runoff races this week that will determine which party controls the Senate under President-elect Joe Biden. Democrats winning control increases concerns about higher taxes. Greater fiscal spending also could send bond yields higher.

The rally of everything continues into 2021 with Bitcoin up close to 10% yesterday even before major financial markets commenced trading. Bitcoin, always a volatile cryptocurrency crossed above \$34,000 for the first time yesterday extending its 2020 rally of 300%. It is becoming more integrated into the financial system and in October, PayPal said US customers would be given the option of holding bitcoin in their digital wallets. However, Economist Nouriel Roubini called it a “pure speculative asset and bubble with no fundamental value”. The CIO office does not advise on cryptocurrencies.

Has all the good news been priced in for markets after the 2020 rally, along with the strong growth consensus? What supports economic growth and markets? Real bond yields have been falling making equity valuations look reasonable. US 5-year real yields are at lows, 10-year real rates have also fallen sharply since the Pfizer vaccine announcement on November 9th. A strong labour market recovery in the US can be seen with the unemployment rate at 6.7% still 3% above February but below the expected 15 to 20% as per some estimates in March. This may push up inflation but not immediately. Strong productivity growth in Q3 and Q4 has been seen. In Europe Brexit uncertainty is reduced. Recent lockdowns have curbed covid case growth and hospitalizations in several countries, the ECB has extended its sovereign bond market support program into 2022.

The targeted roll-out of vaccinations to high-risk individuals globally is likely to have a rapid effect on reducing hospitalization, especially for older people and those in resident care facilities. This supports the opening up of economies quicker. Restaurants and travel will benefit as consumers become more confident and unlock service sector activity. The start of vaccine approvals and distribution supports strong global growth in 2021. Combined with supportive policy and a decline in US real yields, this remains a conducive backdrop for cyclical assets: higher equities and cyclical outperformance within equity markets and a weaker Dollar. China has been a forerunner in the economic recovery with the latest PMI data indicating a recovery. The Caixin manufacturing PMI is at 53.0 in December.

This once again reinforces our EM overweight stance. The global backdrop – vaccine-led global growth, accommodative financial conditions in core economies and recovering commodity prices remain supportive of EM assets for the medium-term.

Events this week: OPEC+ meets today to decide on how much to raise output – if at all - in February, after increasing production by 500k b/d in January; FOMC minutes out Wednesday; U.S. unemployment report for December is due Friday.

Stay safe.

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