



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

The first half of 2021 was one of the best on record for global markets, with the developed markets equity benchmark MSCI World up 13% to take a single illustration.

The week which just ended was less spectacular. Global stocks were up 0.2% in developed markets, and down -1.7% in emerging regions. The fixed income complex had a slightly positive week, with the US 10-year treasury yield closing at 1.42% on Friday. The brightest spot was in energy, where the price of Brent crude oil added another 0.4% on Friday alone to end the week above the \$76 mark. The OPEC+ group hasn't yet reached an agreement with regards to supply, and the alliance will reconvene this coming week.

The beginning of July came with an avalanche of economic data, which added details to an already known picture: the recovery is robust in the West, with Europe following the US, and more mixed in the East, for different reasons. Starting with the latter, the Tankan indices confirmed a soft episode in Japan, due to the virus, while the Caixin manufacturing PMI in China printed a relatively modest 51.3, slightly below expectations: the recovery is more mature there, and the policy impulse is less generous. A comparable measure in India, the Markit PMI manufacturing, came out at 48.1, below the expansion line of 50. By contrast, the US ISM manufacturing survey headline number was at 60.6. This was slightly below what the consensus expected, and confirmation of a flattening momentum, but the level remains very

high in absolute. Last, but definitely not least, the monthly job report in the US was impressive: 850 thousand new positions were created in June, way above the average forecast of 720k. This was the largest one-month gain since August 2020, and the key contributor was leisure and hospitality, a logical consequence of having now a majority of the population being vaccinated. The picture for the US was however not unanimously bright: within the job report itself, below the surface of strong net hiring, hours worked disappointed and the unemployment rate unexpectedly rose to 5.9%, probably due to people leaving their job to find a better one as the economy restarts. Apart from jobs, auto sales kept on falling, down 9.8% in June, a direct consequence of supply chain issues boosting prices. The May construction report was also soft.

To synthesize, data was good enough to validate a scenario of robust growth, but it was not hot enough to rush the Fed to taper earlier than expected. This explains why US stocks gently hit a fresh record high while at the same time interest rates didn't rise, and why the dollar was marginally weaker. The story of H2 is about stabilization in the US, and an acceleration in the regions which have been the most affected by COVID's second wave. The fast-spreading delta variant is also a source of concern. On one hand, most of governments have made it clear that they do not consider imposing new restrictions, and vaccines providers are confident in their effectiveness. On the other, anxiety could obviously weigh on confidence. Bottom-line, with regards to the investment landscape, the risk of another devastating impact on the economy appears limited while uncertainty should prevent early withdrawals of current policy support. It is not an adverse backdrop, but combined with elevated valuations and optimistic positioning, we keep on expecting volatility ahead.

Finally, the other big headline of the end of the week is a massive cyberattack on the global software supply chain, which could affect thousands of companies. The attack targeted IT managed-service providers, who serve small and medium sized businesses around the world. A grocery chain in Sweden could not open its 800 stores on Saturday, and a total of 17 countries are said to be affected so far, from the UK to South Africa. In the US, President Biden ordered a deep dive on the event, and expressed the possibility that the attack could be linked to Russia, adding that he is "not sure" it actually is.

The week ahead will start with another rafale of economic data, especially the Services PMIs, in China and Eurozone on Monday and in the US on Tuesday. Stocks in July will be dominated by the Q2 earnings season, while fixed income markets will raise the recurring but always delicate question of the US federal debt ceiling.

Stay safe.

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