



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

Global markets had a long-planned date with Fed's chairman Powell yesterday after their November FOMC meeting, and we have an update. Well, sort of: to put it short, there was no surprise. The FOMC announced a widely expected decision to start reducing the pace of asset purchases later this month, the so called "tapering". Reduction will be \$15bn per month until mid-2022, so that the current gigantic \$120bn monthly shopping cart is emptied by then. In a typical Fed fashion, the institution remains of course open and prepared to adjust this pace, should economic conditions require it. On the rate hikes front, full employment remains the focus over inflation, but Mr Powell perfectly managed to avoid any kind of commitment one way or another. The timing, and the FOMC's mind, are open, and we feel that the Fed is not unhappy to see markets being prepared to two hikes in 2022 – it would be very surprising to see more, and quite likely to have less. On employment, the chairman expects 500 to 600k monthly job creations for the months ahead, but warned that the current unemployment rate is not the sole measure and that the US remains quite far from full job recovery. About inflation, there was some humility from the institution, admitting price pressures and that the supply-chain bottlenecks might be more persistent than expected. This was expressed by the subtle fine tuning on the topic in the statement: inflation factors were "transitory", they are now "expected to be transitory".

Bottom-line, the Fed confirmed what they had telegraphed for months, and Mr Market enjoyed it, especially as October's ISM Services index was also much stronger than expected, at a spectacular level of 66.7, dwarfing both September release of 61.9 and the uninspired consensus forecast of 62. Interestingly, the equivalent measure was also good in China, with the Caixin PMI Services at 53.8, in

India at 58.4, and in the UK at 59.1. No doubt, the global economy is reopening: services are back, please give us chips and ships and we'll be fine. Central banks are not all in the comfortable position of the world's largest who can be patient and keep options open: the Bank of England who meets today could announce that rate hikes are imminent (we are not sure), and the central bank of Norway, who already pulled the trigger once, should confirm the possibility of a second hike later this year.

Back to the market's reaction: it's now a well established habit, Wall Street closed at an all-time high yesterday, adding 0.7% and lifting all DM stocks in the green, while EM stocks were late to the party, slightly down. There was however a brilliant exception: the rally of UAE markets extended during the UAE Flag Day, with Dubai outperforming with a 3.8% daily gain. The MSCI GCC is up 37% so far this year – and we are overweight UAE. Interest rates went logically up (sometimes they appear to behave logically) after the Fed's communication, with a beautiful sequence between maturities of US Treasury yields: the 5-year added 4 basis points to 1.19%, the 10-year gained 5 basis points to 1.60%, and the 30-year added, yes, 6 basis points to 2.02%. Oil prices fell significantly, under pressure from rising US inventories on one hand, and on the other, by Iran confirming that nuclear talks will resume this month. The price of Brent crude oil had its largest intraday drop in weeks, moving down -3.9% to \$81.4. Talking about nuclear, in a more sinister way: the US Defense Department warned that according to their intelligence, Beijing is building a nuclear weapons arsenal which could target 1,000 warheads by 2030. This sounds enough to annihilate a couple of planets, but is just a tenth of what US and Russia combine.

The FOMC was not the only committee of the week. Our much more modest Tactical Asset Allocation monthly meeting was held on Tuesday, and we decided to add 1% to our gold allocation in our three profiles, funded by cash. This is certainly not a stand-alone bullish view on the ancestor of bitcoin, but an optimization of our defensive assets. While our central scenario remains constructive on growth, the possibility of market participants to discount a larger risk on a stagflation pattern exists, and Gold looks like an appropriate hedge against it, should real interest rates go even deeper. More gold in a diversified portfolio should make it more robust in the world of versatile sentiment we are expecting, We remain overweight stocks and underweight bonds, this is not a change in our scenario but the optimization of the risk mitigators, within our constructive view.

As we write this morning, Asian equities are rising following the record highs on Wall Street. The Nikkei is up 1%, while Korea, Hong-Kong and onshore China gain around half a point. Interest rates as well as future contracts on Western stock markets are more or less unchanged, while oil prices are down another -0.5%.

Talking about oil, the OPEC+ will meet today to decide on the output, and it seems probable that the monthly increase will go as planned which is +400k barrels per day. We will get an avalanche of Services PMI indices from European countries, the BoE monthly meeting and a speech from ECB's head Christine Lagarde. The earnings season will continue with a focus on Europe, from Credit Suisse to Telefonica, but also platform companies such as Uber and Airbnb, both being interesting to gauge the actual reopening of the real economy, Happy Diwali.

Stay safe.

**MAURICE GRAVIER**  
Chief Investment Officer  
Wealth Management  
Emirates NBD

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