



CIO OFFICE MORNING MARKET WRAP – May 5th, 2021. ALSO AVAILABLE ON ALEXA.

Global equities closed down yesterday, falling 0.8%. Asia finished mixed as markets in China and Japan remained closed for holidays, while Europe and US closed lower. This morning Asia trading lower. A marked divergence with Asia, particularly India beset with an increasing second wave of the virus, while Europe and the US are on a strong reopening track. The Indian Reserve Bank governor is speaking this morning to address concerns as the country continues to face a devastating Covid-19 wave. U.S. equities had a mixed finish with the Dow higher while the S&P 500 fell 0.7% and with tech stocks selling off and the Nasdaq closing down 1.88%. Volatility on the rise, with the Vix Index higher at 19.5. The US trading day began with the Nasdaq trading down 3%, post Treasury Secretary Yellen remarks that interest rates may need to rise over time to keep the US economy from overheating. The remarks were made in the context of the additional spending on infrastructure and welfare over the next decade which could lead to inflationary pressure. Yellen later clarified her remarks, saying higher rates were “not something I’m predicting or recommending” and she did not think there was “going to be an inflationary problem”. The Fed is still far from raising interest rates, saying the US economy would have to reach full employment, with inflation hitting 2% and to exceed that level moderately for some time, before the first upward move. Lower rates remain supportive of equities.

While global headline PMIs have moderated after having reached a new cycle high last month they remain relatively strong. Demand and production are robust, while supply chain constraints continue to affect manufacturing activity. As economies reopen, supply chain constraints should ease. Treasuries were higher with the US 10 year at 1.59%, as the yield curve flattened. The U.S. dollar strengthened 0.4% against a basket of currencies. Gold largely unchanged at \$1781 this morning and Brent crude futures higher at \$69.4/ a barrel. Commodities continue to hold onto their recent gains, trading near decade highs. Copper at above \$10,000 a ton. Cryptos see Ethereum continue its momentous rally though other cryptos fell dragging down shares of companies related to crypto assets.

Yesterday again saw a rotation away from growth stocks in the US to more cyclically oriented companies and Financial and Materials sectors saw the largest gains. Earnings season on track as CVS Health, Pfizer and DuPont offered positive outlooks, however Ferrari spoke of production delays on parts shortage. With 337 of the S&P 500 companies that have reported, valuation concerns are mitigated as sales growth is on track to be up 11% and earnings 50% above year ago levels. On the US macro front the trade deficit widened, while factory orders increased, and durable goods orders were revised upward.

The UAE markets were largely unchanged, maintaining strong year to date gains. The UAE's PMI rose to 52.7 in April from 52.6 in March. New order growth accelerated in April and while export orders increased slightly last month, the main driver appears to be improving domestic demand. The UAE recorded a net inflow of private sector foreign direct investment (FDI) in 2020, for the first time since 2013, according to preliminary balance of payments data. On the capital market front, Adnoc may look to list its drilling unit. More recently, Adnoc recently picked banks for the IPO of a fertilizer joint venture Fertiglobe, while Mubadala hired advisers for the listing of satellite operator Yahsat. The Expo remains on for an October opening with the strong vaccine rollout.

The KSA Index flat yesterday, is up 20% year to date amongst the world's best performing equity indices. Saudi Arabia's headline PMI rose to 55.2 in April from 53.3 in March, the highest reading since January. Both business activity and new orders grew at the fastest rate in three months. The government continues to look at diversification from oil revenues and to finance Vision 2030, authorities in Saudi Arabia aim to deepen their debt and equity markets to increase foreign direct investment.

Stay safe.

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