



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

After a very upbeat August with both emerging and developed market equities in synch, gaining around 2.5% for the month, last week saw gains of +1.2% for global equities, taking year to date gains to 17%. Many markets were up 5% including China, Japan and India. India continues to gain as virus cases recede. Japan markets have taken well PM Suga's departure. An encouraging start to September, statistically the worst performing month. There were and remain plenty of reasons for volatility or a pullback with the Afghanistan news flow, the Jackson hole Central bank symposium where talks of tapering were vigilantly analysed and virus resurgence with vaccine boosters being touted. Importantly, the marked difference between the Covid impact on vaccinated vs unvaccinated remains stark. U.S. equities, the leader in the DM space, headed into the long holiday weekend on a positive note with Powells balanced signals supportive and the Nasdaq was up 1.6% and the S&P 500 +0.6%, for the week. Tech back in favour and the Nasdaq continues with new highs as does the S&P 500. UAE markets continue to add to year-long gains and opening up of the country to vaccinated tourists bodes well for further improvement in service PMI's. Treasuries are lower with the US 10 year yield at 1.32%, and the U.S. dollar dipped, while gold rallied with spot at \$1832. Oil prices edged lower, Brent futures at Friday close were at \$72.6/ barrel. Cryptos are seeing Bitcoin close to the \$50,000 mark and Ethereum above 3,800. Still an uncertain investment class, if that, with volatility around movements unpredictable.

Last week saw the MSCI China gain 4.2% following a flat August, a sign that China equities are stabilising following the sharp fall in July. However, China remains the worst performer amongst large markets year to date, with regulatory oversight continuing on gaming hours for children, internet content and the latest is the possible state investment and oversight on ride hailing companies listed overseas i.e. Didi. Tech giants are also committing large contributions to “common prosperity” initiatives. Uncertainty on China policy with its strong push to a more equitable social framework, could continue to take its toll on its capital markets.

Friday saw a much softer-than-expected U.S. August nonfarm payroll report, the Delta variant and seasonal factors may be responsible. The US unemployment rate dropped marginally to 5.2% from 5.4%, though wages rose. The report likely keeps Fed tapering expectations in place and possibly pushed to later this year. However, more signs and signals are emerging on ECB tapering which may precede the U.S. In August U.S. services sector activity slowed but remained in expansion territory, similar to Europe, though contractions were seen in Asia, notably an unexpected drop in China.

There are several risks for the market: fading monetary and fiscal stimulus, peak earnings/economic growth rates and the Delta variant. However moderate growth upside remains supportive for cyclical assets – higher equities and higher bond yields. Cyclical sectors energy, financials continue to lead global equity returns along with real estate. But the year-to-date rally is broad based with tech and healthcare also with +20% year to date gains.

The U.S. has a shorter week, with the Labor Day holiday. Economic reports includes the Job Openings and Labor Turnover (JOLTS) survey, the Fed's Beige Book report, initial jobless claims for the week ended September 4, and the Producer Price Index (PPI). The economic calendar will also feature some speeches from Fed officials. Also expected are Reserve Bank of Australia monetary policy decision, China—trade balance, inflation statistics and lending figures, Japan—Q2 GDP, Eurozone—the European Central Bank monetary policy decision, Q2 GDP, German factory orders, industrial production.

Stay safe.

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