



## CIO OFFICE MORNING MARKET WRAP – 5<sup>th</sup> October, 2021. ALSO AVAILABLE ON ALEXA.

Higher energy prices and shortages with rising inflation worries and the possible result on global growth, led to markets starting the week on a down note. Oil is at multi year highs after Opec and its allies stayed with a gradual supply hike. Brent futures this morning at \$81.7/ barrel and WTI at almost \$78/barrel. Record natural gas prices are also boosting demand for crude. Tapering and tightening monetary policy were for a change not in the forefront, though debt ceiling worries remain dominant with the US 10-year Treasury yield steady at 1.48% and gold at \$1761. Central banks dealing in different ways with stagflation, inflationary supply shocks and slowing growth. Interest rates up in Norway and in many emerging economies such as Brazil which has already raised its SELIC rate 5 times this year, while the US Fed and the Bank of England have made moves to tighten monetary policy. ECB and the Bank of Japan, yet to make any move.

Global equities fell 1.4% yesterday starting in the morning with the Hang Seng Index down over 2%, (the only China gauge to watch as mainland China equities are closed till Friday) and Japan's Nikkei down a percent. This morning in Asia, the Nikkei is trading down 3%, whilst the Hang Seng Index is flat. European equities fared better yesterday than the US, losing just half a percent whilst the S&P 500 fell 1.3%. Not a good day for tech with the Nasdaq falling – 2.1% and the FANGs responsible for half the S&P 500's losses. Facebook and a number of its WhatsApp and Instagram apps 2.7 billion users faced a widespread outage yesterday and not helping share price was a whistle blower testifying on the same day. Taking a leaf from China who has cut down hours spent

by below 18's on gaming apps there is now much controversy on mind control and adult time spent on Facebook and teenagers on Instagram. Amazon's Astro robot likened to a dog, which has received largely positive reviews did not help its share price nor did the huge take off of Apple's iPhone 13. We see this as an opportunity to accumulate long term sustainable businesses which are currently seeing the impact of the sell-off of growth stocks on rising yields.

Not much change in the region with UAE markets down close to half a percent yesterday and capital market activity continues with Mubadala's GlobalFoundries filing for an IPO. Quality UAE companies are one of the best ways to play the global recovery and rising energy prices, as the UAE economy benefits from both. The missing catalyst in our view for years has been a broadening of the stock market and the recent Yahasat, ADNOC Drilling and now a chipmaker's IPO fill that gap. KSA PMI numbers released this morning at 58.6 for September vs 54.1 in August indicate continuing in expansion territory. Indian equities also behaving contrarian to global markets with the Sensex continuing to gain. Higher energy costs may however weigh in from hereon for the oil importer.

The Biden administration is calling on China to honour the trade deal it signed with the US in the last year of the Trump administration, as it prepares for its first trade talks with Beijing. Evergrande shares remain suspended from trading in Hong Kong as the real estate developer is in talks for the possible sale of its property management unit. In the news also is another China real estate developer Fantasia which did not pay a \$207 million dollar bond due yesterday. China equity valuations look increasingly attractive and targeted regulatory changes are not uncommon, often followed by sharp rebounds in share prices driven by favourable policy actions. This year's peak-to-trough fall of 32% for the MSCI China Index is not far from the 28% average annual drawdown over the past 20 years. We remain neutral China equities till we see clarity on policy, though in the fixed income asset class we have a constructive view both on China investment grade as well as broader Asia high yield.

The Reserve Bank of Australia will meet for its monthly gathering of policymakers today. No change in policy is expected but record-low interest rates are leading to home prices soaring. Stay safe.

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