



CIO OFFICE MORNING MARKET WRAP – Sunday December 5, 2021. ALSO AVAILABLE ON ALEXA

The working week was short in the UAE with the celebrations of the country's Golden Jubilee. It was however eventful on financial markets: rising uncertainty, an avalanche of economic data and impactful events combined to push volatility materially higher.

Weekly returns were mixed. Stocks were down -1.4% in developed markets, with the US amplifying losses in the last hours of Friday's session, at a time when most other exchanges were closed. This is why stocks in emerging markets were marginally positive, gaining +0.2% over the week. The fixed income universe was much better oriented, with interest rates falling, especially on Friday. The US 10-year Treasury yield landed at 1.34%, losing -13 basis points in a week, -10 in a day, and more than -30 compared to "pre omicron" levels just 10 days ago. This happened despite a confirmation that the Fed considers speeding up the tapering of their asset purchases,

from both the minutes of the November FOMC meeting and the formal testimony of Mr Powell before the US Congress. The institution acknowledged the fact that the current rise in inflation may be less temporary than initially thought. Over the week, government bonds gained +0.3%, and all segments of fixed income were in the green, led by emerging markets debt, up +0.7%. Gold didn't benefit, losing -1.1% to close below the \$1800 mark. Oil prices also had a negative week, losing -2.5% as the OPEC+ decided on Thursday to proceed with their initially planned monthly increase in output. This was a surprise to many, but importantly, the group decided not to formally adjourn the meeting, keeping flexibility to adjust plans on the short term. The price of Brent crude oil closed just below \$70. Finally, the end of the week was a sea of red for crypto assets. Bitcoin tanked, briefly trading below \$45k yesterday, from \$57K on Thursday, before stabilizing just below the \$50,000 mark as we write. The largest cryptocurrency is still up 70% year to date.

Last week was also extremely rich in terms of global economic releases, most of them being monthly data from November. To put it short: November was good. Manufacturing activity was robust, with a clear continuation of the factory reopening in Asia, contributing to ease the current pressures on the supply chain. Services were even better. The US ISM reached 69.1, which was 4 points above the median forecast and a material progress from October's 66.7. Equivalent measures were however slightly below expectations in Europe and in China, but better in the rest of Asia. Finally, the US monthly employment report was disappointing with only 210k jobs being created, while the consensus of economists was for 550k. Looking at details however, the unemployment rate continued to fall, to an impressive 4.2%, and the average working week ticked up. It appears that employers are struggling to fill vacant positions and use their existing workforce more. This is also consistent with a significant rise in hourly wages, reaching an annualized pace of +4.8% over the last 3 months. Bottom-line, the US job market looks all right, despite some difficulty to reconcile all numbers.

Of course, these overall positive news were from November, i.e. before the WHO classified Omicron a variant of concern and the following shockwave. As we wrote last week, it's still too early to have a clear idea of its impact on the economic outlook. It can't obviously be good: new rounds of travel bans and restrictions are being issued and the threat of more constraints on mobility, especially in Europe, is looming. The key question is of course whether Omicron's mutations will provide evasion from existing vaccines, and to what extent it will cause more severe illness. Current indications are pessimistic on the former but quite reassuring on the latter, based on early observations from South Africa. We will know more in a couple of weeks, but in the meantime, it's good to see a clear resilience in both consumption and sentiment

in the most affected Northern hemisphere, as well as the rapid rise of vaccination rates in Asia. Some economists have already started to include the new variant in their scenario. Goldman Sachs modestly downgraded their forecast for US and global GDP growth – but the magnitude of the revision doesn't change the big picture of a strong recovery. The IMF has unsurprisingly warned about the downside risk. We haven't changed our own positioning, which remains overweight in stocks and underweight in fixed income. At this stage, too many questions remain unanswered, and we do not think that ultra-low yielding safe bonds have suddenly become a fabulous opportunity. First, we should not exclude the possibility that Omicron is not more severe than other variants – and we keep on believing that the world has learnt to live with the virus. Second, even in a negative scenario, the impact on inflation is not that straightforward: on one hand, sectors like travel or hospitality would see lower prices, but on the other, the supply chain could be disrupted again. Inflation is not that bad for stocks and gold, our two current overweights.

The week ahead will precisely give more color on inflation with the most awaited US CPI on Friday – the median forecast is for a year-on-year jump of +6.7%. In the meantime we will look at China's trade and inflation numbers – with the PPI being the most interesting there, after the +13.5% year on year surge of October. Overall however, developments around the new variant will of course be the single most important driver. Stay safe.

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