



CIO OFFICE MORNING MARKET WRAP – Sunday June 6th, 2021. ALSO AVAILABLE ON ALEXA

Last week was rich in terms of economic data, with an avalanche of monthly leading indicators, and the most awaited US job report for May on Friday.

The big picture from the PMI indices was upbeat. Looking at globally aggregated numbers, Services retook the lead from Manufacturing activities, with a global average reading of 59 for the former and around 56 for the latter. The strength in services was also notably not uniform by regions. The US is booming. Europe is catching-up with very material improvements, including the most leading components such as new orders. The broad emerging complex, and Asia in particular, clearly underperform. Japan and India are both below 50. Looking at the price components, inflation pressures are not outsized but are found everywhere. Prices in services are significantly elastic to demand, while industries remain affected by supply-chain bottlenecks. Finally, the employment component is lagging the others. This was confirmed by the monthly US job report on Friday.

After the shocking disappointment of April, May saw 559 thousand new job creations, still below the 615 average forecast of economists. It appears that the current recovery leads to more and better paid working hours for people who have a job, rather than to new positions being created. Some commentators are blaming the extraordinary fiscal benefits currently in place in the US as a disincentive. Bottom line, the US labor market is still 7 million short compared to the pre pandemic level. If anything, this will comfort the Federal Reserve in their current stance: as the job market is their primary focus, there is no emergency to curb the accommodative setup. Job creations could happen over a longer period which supports a more sustainable growth while mitigating the risks of an uncontrolled spike in inflation.

Markets seem to agree with this constructive view: last week was gently, but broadly, positive, especially on Friday after the job report. Interest rates remained anchored and actually ticked lower, with the US 10-year Treasury yield closing the week as low as 1.55%. This supported the fixed income asset class, up one to two tenths of a percent. Risk assets were more enthusiastic last week, with an outperformance of emerging market stocks, gaining 1.6%, over their developed peers, up 0.6%. Gold was the only negative one, giving back 0.6% after a spectacular 8% gain in May. Oil continued to be strong, after the OPEC+ meeting. The price of Brent crude oil ended the week at \$71.6.

In the news, the G-7 reached an agreement Saturday on a minimum global corporate tax rate of 15%. The group aims at limiting the possibilities for multinational companies to shift their profits in the most interesting jurisdiction from a tax point of view, and implicitly opens the door to more taxes on technology giants. This aspect remains implicit, as the US has been a firm opponent to the EU push for a digital tax, which is not mentioned in the statement. The good news is that relations are smoother now between Europe and North America than during the Trump era.

For the rest, implementation of such a measure remains to be seen. One could legitimately wonder whether the US, Canada, Japan and 4 European countries really represent the global economy of the 21st century. A broader agreement from the G20 in July and September would probably have more impact. The statement also includes measures to tackle environmental crime and a willingness to embed climate change and biodiversity into decision-making. Globalization, corporate taxes and climate, no doubt, Mr Trump is not in office anymore. Facebook announced over the week-end that the former US President will remain banned from the platform for 2 years.

At the same time, Russia has decided to simply eliminate the dollar from its National Wellbeing Fund which will favor Euros, Yuan, and interestingly, gold. In the digital gold sphere, crypto assets had a very volatile week and ended it in the red, with bitcoin currently trading around \$36000. As we wrote several times, we do not think that this

volatility should spill over to conventional markets, but we cannot ignore other behavioral warnings such as the parabolic rise of so called “meme stocks”, the latest being the US cinema chain AMC Entertainment. After a more than 2000% gain in 2021 alone, the company is still losing money and bleeding cash, but was able to sell more stocks and to collect more than \$500 million. It looks like popularity on internet forums and free pop corn for shareholders matter more than fundamentals for some. The market is always right, but we can’t help worrying about the speculation frenzy. It looks good and even amusing in a bull market but how would it behave on the downside?

The week ahead will be quieter in terms of economic data releases. We will hold our monthly tactical asset allocation meeting on Tuesday, and will have to find a consensus between the positives from our constructive scenario unfolding, and the rising risks of turbulence as we still believe that interest rates are a bit too low while optimism is a bit too high. Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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