



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

Not much change in the narrative from yesterday except that an upbeat ISM report cheered U.S. markets which reversed Monday's losses with the broader U.S. indices gaining over a percent. In line was European markets performance. In Asia, the Nikkei closed down 2% and the Hang Seng ended close to flat. PM Kishida's comments indicating he might push for a capital gains tax increase is seen as a possible cause for the Japan markets down day. UAE markets saw the Dubai Index at -1% whilst the Abu Dhabi Index was largely unchanged. More capital market issuance with the Fertiglobe IPO currently underway.

The U.S. 10 year Treasury yield is higher at 1.55%. Oil continues to gain as does natural gas whilst gold is steady. Supply remains tight, following OPEC+ decision to continue with the original production increase of 400mn barrels per day. The higher oil prices and favourable market conditions are expected to be reflected in higher estimated growth for the UAE and KSA economies for 2021 and 2022.

We held our asset allocation meeting yesterday and our current positioning is unchanged: remain overweight both developed and emerging market equities with a continued higher overweight to developed markets. We shift the US to an OW as we see it least affected by the energy crisis and ahead on the economic recovery path. Relatively Europe is now Neutral and Japan underweight. No change in EM positioning with a neutral Asia EM outlook. In the fixed income asset class, we remain underweight high-quality bonds, overweight EM debt and neutral DM HY credit. As for the Evergrande crisis, we draw comfort from China's efforts to ringfence the system from contagion effects, i.e., the large liquidity injections of the PBoC, and Evergrande's disposing of assets to improve its liquidity

position. Opportunities in fixed income: UAE issuing its first federal government debt; India local currency government bonds on the expectation of their inclusion in relevant benchmarks. The outlook for rising rates should support the dollar and keep gold under pressure.

The first three U.S. trading sessions of October and Q4 have alternated between gains and losses on concerns over the debt ceiling, the intensifying global supply-chain disruptions impact on inflation and expectations that the Fed is moving closer to tightening policy. The biggest support for U.S. Markets remains earnings growth and high corporate margins not yet materially impacted by rising input costs. Stagflation with a soft patch in economic growth and persistent supply-side constraints feeding inflation is however an increasing concern for markets. Rising real estate prices are also emerging as one of the biggest post-pandemic challenges for monetary authorities around the world. The Bloomberg World Real Estate Index shows prices have now risen above the 10-year average, though about 11% below the start of 2020.

Whilst tech stocks were largely up yesterday, they remain in the crossfire of increasing government scrutiny. Adding fuel to efforts to pass tougher regulations on Big Tech was a whistle blower who testified to Congress on Facebook being aware of its site and apps effect on teenagers' mental-health problems and influence on political matters.

This morning in Asia the Hang Seng Index is trading half a percent with property stocks taking the Index down. The debt problems afflicting China's real estate market continue after Fantasia missed a debt payment while Evergrande extends a suspension of its shares into a third day. Hope for better US China relations as US and Chinese officials will meet today in Switzerland that will include negotiations about a possible virtual summit between President Biden and Premier Xi Jinping.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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