



CIO OFFICE MORNING MARKET WRAP – Thursday 7th January 2021. ALSO AVAILABLE ON ALEXA.

Global equities gained close to half a percent yesterday with most major markets up. Major news affecting markets include Democratic control of the US Senate, the 10 year Treasury yield over 1%, oil continuing to gain and Coronavirus spread leading to continued lockdowns. Vaccine rollout with new vaccine candidates being approved is improving sentiment. Small-caps and economically sensitive stocks gained with materials and financial stocks strongly up and tech stocks down as a rotation into cyclical sectors continues. Leading global market equity returns yesterday are the U.S. Russell 2000 small and midcap Index +4% and the UK's FTSE 100 +3.5%. The latter continues to benefit from oil and commodity stock gains. Copper climbed to the highest in almost eight years on signs of tightening supply and rising demand. GCC markets saw UAE equities little changed.

This morning in Asia Hong Kong stocks are trading down whilst Japan equities are up almost 2% trading at multi year record highs. Treasuries are under pressure with the curve bear steepening. Oil finished up 1.4% with Brent futures trading this morning at \$54.66. Gold settled down 2.3% and is at \$1918. The USD was weaker vs the Euro, firmer vs the Yen and Pound.

Coronavirus continues to dominate the headlines following extended/tightened lockdown measures in Europe, more reports of efforts to stretch the supply of vaccines and continued frustration with the rollout of vaccines. Japanese PM Yoshihide Suga is set to declare a state of emergency for Tokyo and adjacent areas, possibly to last for months.

Financials was the largest beneficiary globally on the sector front after the 10 year yield surged above 1% for the first time since March 2020. Renewables stocks continue to rally with the Solar ETF up 10% yesterday and gaining 250% over a year. ESG and renewable themes have gained traction during the pandemic and also as this has been a major agenda on President elect Biden's agenda.

Democrats won control of the US Senate giving incoming President Joe Biden control of both houses of Congress. Democratic control of the Senate puts some tax and regulatory risk in play for the market. However, these would need to be considered as there is razor thin margin of control and lingering economic headwinds from the pandemic. Democratic control is positive for more coronavirus relief and infrastructure stimulus. Order was restored in Washington about four hours after Pres. Trump supporters stormed the Capitol building, forcing Congress to delay Joe Biden's Electoral College certification. U.S. equities traded mostly higher. The S&P 500 closed +0.6% whilst the Nasdaq fell -0.6%. Fed minutes released from December's meeting showed that Fed officials unanimously backed holding the pace of asset purchases steady. Some members indicated willingness to adjust the program by buying longer-term Treasuries. Officials discussed the impact of the vaccine rollout as being "favorable for the medium-term economic outlook".

US-China tensions remain in focus as Trump administration moved to ban Chinese payments banning transactions with eight Chinese apps including Alipay. The NYSE will also proceed with delisting China Mobile, China Telecom and China Unicom, The U.S. is considering adding Alibaba and Tencent to a list of Chinese companies in which Americans are prohibited from investing. No decision has been made yet. Is currently in the market with plans to sell up to \$8 billion of bonds in a show of strength.

Stay safe.

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