



CIO OFFICE MORNING MARKET WRAP – Sunday 7th February 2021. ALSO AVAILABLE ON ALEXA.

January ended with a very negative week, combining surging Covid-19 infections, delays on US fiscal stimulus and the largest de-risking from hedge funds in a decade, under attack by retail investors on the dubbed “meme stocks”.

The first week of February couldn't be more different. Global equities rallied, adding respectively 4 and 5% in developed and emerging regions. Global REITS and Hedge Funds gained between 1 and 2%. Within the fixed income sphere, only High Yield and Emerging Markets' debt, which happen to be our preferred segments, were in positive territory. Gold was the worst performing asset class, down 1.8%, and the US 10-year government bond yield reached 1.16%, a new high for 2021. Finally, Oil had also a great week, with the price of Brent crude oil closing at \$59.3.

No doubt, last week was clearly “risk-on”: market participants found some comfort in the constructive outlook we believe in for the rest of the year. There were indeed several reasons for that.

First, economic data. No surprise, GDP numbers for the last quarter of 2020 were not good in absolute, but they were overall better than expected, including a significant resilience in Europe despite being extremely affected by the virus resurgence. PMI indices for January remained robust in the manufacturing sector and displayed some improvement in services, especially in the developed regions where the inflexion is most needed. Finally, Friday's US monthly job report headline figure was disappointing, with only 46,000 job creations, but hours worked were rising. Importantly, business confidence was also solid from various surveys and inventories were strong. Bottom line, there is a loss of momentum but we have learnt to live with the virus.

On the Covid-19 front, precisely, infection numbers are clearly decelerating globally. Most of it is due to restrictions but vaccinations are progressing. The drop is massive in some countries like India or Japan. AstraZeneca's vaccine is also said to be effective against the UK variant. Positive fundamental news also came from the Q4 earnings season: numbers are on average 19% higher than forecast in the US, and 12% in Europe. It is unambiguously positive. Finally, policy support is not fading, and if anything, the disappointing US job report could help the Biden administration to convince the congress for a bigger stimulus package. The latest vote at the Senate was a perfect 50/50 for the currently proposed \$1.9tn package. Elsewhere, there was a more expansive budget in India, and a market-friendly turn to Italy's political crisis: Mario Draghi, the former ECB President and arguably one of the country's most respected policymaker, has been asked to form a new government.

Our current tactical positioning is unchanged and reflects a reasonably constructive outlook. We are overweight stocks versus bonds, neutral cash, and underweight alternatives. Our cyclical exposure is expressed through emerging market equity, while we seek coupons in high yield and EM debt. Cash and Gold are our preferred assets for risk mitigation: no doubt, the precious metal could be under pressure with higher inflation expectations, but it makes sense to hold it in a diversified portfolio and we don't try to time it. Timing in general is anyway impossible and we still expect volatility to remain significant, as investors' positioning is not a tail wind anymore, with the additional risks posed by retail speculation frenzy.

In the week ahead, Donald Trump's impeachment trial will start on February 9th. What is mostly at stake is to block, or not, Mr Trump for running again for presidency in 2024. The earnings season will continue, and we will get a series of speeches from Fed officials. The Chinese New Year will be celebrated with a holiday.

Stay safe.

MAURICE GRAVIER
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