



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

Bad fundamental news are not what markets dislike the most: uncertainty is. Last week was another example of this well-known behavioural lesson. The very same news which triggered last year's Q4 rally, when market participants were overall very defensively positioned, shook markets last week with a significant rise in volatility.

What fundamentally happens is simple: the widely expected bounce in activity is apparently starting earlier than many had expected. On the virus front, signs of a better control converge with a continued inflexion in the daily new cases numbers and some success in targeted restrictions. On the economic front, PMI numbers were overall positive and indicated that global activity levels are now close to their previous peak of October. This time, developed regions are leading, with the US taking back the driver seat in powering global growth. Their monthly job report released on Friday was unambiguous: the 379 thousand jobs being added were almost twice better than the average forecast, and the best contribution came from leisure and hospitality, indicating the start of a return to some normality. Trade numbers from China, just released this morning, are equally impressive: both imports and exports for the first two months of 2021 came higher than expectations, and the trade surplus of China

over the period, at \$103bn, was almost twice the \$59bn median forecast. Finally but importantly, the US Senate passed President Biden's \$1.9 trillion relief bill on Saturday with a tiny 50-49 vote. The plan includes sending \$1400 checks to millions of Americans, and a massive expansion of health-care protection. Alas, better growth prospects come with rising inflation, especially in energy and food, which gave a boost to the current relatively disorderly rise in interest rates, creating turbulences across all markets.

The US 10-year Treasury yield closed at 1.57%, which pressured the fixed income asset class, down around -1% on average, and reversed earlier gains recorded by stocks. Over the course of the week, equities were flat in both emerging and developed regions, with intense volatility: up at the beginning of the week, sharply down in the middle, and up again on Friday, fuelled by dip buyers. Below the surface, the rotation continued: previous market darlings such as technology, consumer discretionary and healthcare had a weekly loss, while the leadership was firmly held by energy, financials and materials. High flying assets such as Bitcoin or a certain electric car company underperformed. Oil prices ended the week on a positive note: the OPEC+ decided to keep output steady through April, and Saudi Arabia rolled over their discretionary 1mn barrels a day cut. The group will meet again in less than a month on April 1st. In the meantime, the price of Brent crude oil ended the week at \$69.6, with a 4% surge on Friday. Gold was, again, the most hit victim of higher interest rates, losing another 2% and reaching a double digit loss so far in 2021.

Volatility should not come as a surprise this year, as we repeatedly stated, and given the massive switch in investors' positioning compared to last year, it's not going to be a very pleasant experience. Our stance is obviously to look through it and to stick on the fundamental picture. To that extent, our view is simple: the rise in yields and inflation is logical but transitory, and the current levels of interest rates can be absorbed by equity multiples and of course by the economy as a whole. While market participants are getting impatient with the Fed's very steady messages, which basically say that they won't do anything until material progress is seen in the unemployment market, we tend to see this stance as wisdom. Pent-up demand is strong and turbocharged by the ultra-generous fiscal stimulus, there are bottlenecks in supply chain, and even, food inflation is something to be closely watched, but overall the employment situation is nowhere near overheating and slack remains in the economy.

Reminiscence of the 2013 taper tantrum will keep on fuelling volatility and potentially weigh further on some of our overweight positions, especially emerging markets and gold, but if anything, we may add to them as again we see the current concerns as an erroneous extrapolation over the long term of the initial strength of a perfectly understandable rebound. This transitory status also applies to the regional composition of global growth: we have no doubt that after a couple of quarters of US leadership, the powerful secular drivers of emerging markets will shine again. Of course, we will be closely monitoring the evolution of key metrics on inflation and rates and wouldn't hesitate to change our mind, and positioning, if need.

For the time being, our positioning is unchanged but we will hold our monthly tactical asset allocation committee this Tuesday. In the week ahead, we will watch closely inflation numbers (CPI) in the US and China, listen to the press conference following the ECB meeting on 11th and look at the US consumer confidence on Friday 12th.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
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