



CIO OFFICE MORNING MARKET WRAP – 7th October, 2021. ALSO AVAILABLE ON ALEXA.

Volatility is definitely back in financial markets, and the current week is no exception. Wednesday was overall a negative session for risk assets, but not a particularly great one for defensive assets. Global stocks fell 0.5% on average, with Europe and Japan underperforming. Interest rates were marginally lower, with the US 10-year Treasury yield losing one basis point to close at 1.52%. The trade weighted dollar was firmer, adding 0.3%, especially against the euro, which approaches a one year low, just below \$1.16. Oil prices were lower, following the post OPEC meeting spike. The price of Brent crude oil fell 2.1% but stayed above \$80, at \$80.8. Gold traded at \$1760, not far from our year-end fair value of \$1750.

Volatility however works in both ways, especially when anxiety is linked to political topics with constant developments. The US debt ceiling impasse in Washington is undoubtedly one of them – even if we become quite used to see US politicians playing with fire before usually raising the debt limit before a government shutdown, and always, of course, before a default. Last night, progress was significant, with a compromise being found between Democrats and Republicans. The deal is for a temporary increase of the limit into December – which is better than nothing- and it could be voted today in the Senate. Moving to geopolitics, President Biden indicated that he plans to meet virtually with President Xi Jinping this year, which is seen as another step to avoid another “cold war”. Another positive in the relations between the West and the East came from President Putin who said that Russia is ready to help stabilize global energy markets – natural gas in particular. Prices for the commodity fell by almost 10% on the news, despite a lack of details. Prices remain at very problematic levels for European

consumers: based on London futures, natural gas gained almost 400% so far in 2021. Finally, the ECB is said to be considering a new bond-buying program to succeed the current pandemic linked package which will get phased out next year. Apart from Japan, there is no doubt that the Euro area is the region where magic money is here to stay: almost none of their members can afford to pay significant interests on their highly indebted budgets.

To summarize, last night brought positive developments on current political sources of anxiety, and markets are reacting very positively this morning in Asia. The rally is broad on stocks: from Japan, up 1.7%, to Hong-Kong, rallying over 2% with a material rebound in technology, and including Korea, up 1.5%, while Chinese domestic markets remain closed for a holiday. Futures are also in the green for Western stock indices but slightly in the red for oil prices. Interest rates are overall firmer.

Volatility should not come as a surprise nowadays, as we constantly warned from last June. Fundamental uncertainties around the impact of the delta variant on growth, the trajectory of inflation and of monetary policies, meet elevated valuations and fragile sentiment. We however maintain a reasonably constructive view, as we believe that most of the headwinds are transitory. This is why our monthly tactical asset allocation committee, held Tuesday, decided to start reconstituting our overweight on emerging market stocks, which was erased by the quarterly rebalancing of our strategic asset allocation. Our positioning is procyclical, with an overweight in stocks and an underweight in fixed income, where emerging markets debt is our preferred segment.

Today we will listen to various speeches from ECB officials and have a look at some economic data from Europe. But none of them will have the potential to move markets as much as tomorrow's monthly US employment report. The median forecast of economists is for the creation of 500k new jobs in September, after only 235K in August but a million in July. This number doesn't look unrealistic based on yesterday's ADP job survey, and anything close to or above that level would only give comfort to the Fed to start tapering their asset purchases from November.

Stay safe.

MAURICE GRAVIER
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