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

Cyclical assets were supported by two factors. First, Q3 corporate numbers confirmed day after day a strong earnings growth. The season is well advanced now, with 80% of US companies and 70% in Europe having reported. On average, year on year profit growth is respectively +40 and +50% for the two regions, with sales growth in the mid-teens area. The proportion of companies beating estimates is so far in the higher range of historical norm, but the magnitude of surprise is materially better than usual, reaching double digits which doesn't happen often. On average, earnings are around 10% better than what analysts were expecting.

The second factor supporting cyclical assets was that October macro numbers were overall not that poor – at all. Looking at the broad composite PMI indices from Markit, where 50 is the threshold between contraction and expansion, China is still underperforming at 50.6 but the US and the UK are booming around 57, the Eurozone is not far at 54, and India is accelerating, now approaching 59. Global growth looks set to regain momentum in Q4, with a clear positive inflexion in services, and the monthly US job report published on Friday only confirmed the green shot. The US economy added 531k jobs in October, and the infamous 194k number from September was revised to 312k. The median economist forecast for this month was 450k, and 530 is in line with what Mr Powell said he was expecting for the coming months. As we write this morning, China has just published their trade numbers for October and the big picture is similar to September: imports year on year growth is 14%, which is better than last month but similarly below expectations as domestic demand is still struggling, but exports, at +20.3% year on year, beat the consensus again, confirming that the global economy is robust.

No surprise, then, that stocks in developed markets reached another all time high with a weekly return of +1.8%, along with listed real estate, both battling for the top YTD return spot at respectively +22 and +24%. Equities form emerging regions were less buoyant but managed to be in the green. Oil had a negative week, with the price of Brent crude down -1.7%, but ended on a strong note on Friday, up more than 2% intraday to $82.3. Yes, the OPEC+ sticks to their initial plans, and the monthly increase will be 400k barrels per day, not one more. Finally, bonds rallied sharply last week, which was certainly a surprise given the positive economic backdrop. The reason was simple: while the Fed confirmed the start of the tapering later this month, they also gave the impression that rate hikes were both not imminent and quite conditional, with some pessimism being expressed on the supply side of the labor market. At the same time, messages from the Bank of England, the European Central Bank and even the Royal Bank of Australia were all on the dovish side of the spectrum, and seemed to aim at pushing back against the recent rise in short-term rates. This explains why last week had a goldilocks flavor, with both cyclical and defensive assets being well oriented. Among the latter was gold, up 2% over the week. As we already communicated, our monthly tactical asset allocation decided last week to add 1% to gold across our three profiles, from cash. This is however not a single, directional conviction, but the idea that gold brings an interesting hedge to a diversified portfolio, especially if/when stagflation concerns rise at some point. Don't get us wrong: this is an optimization of the defensive part of our portfolios, but our positioning remains pro cyclical with an unchanged overweight in stocks and underweight in bonds.

In other news, we would highlight the preliminary results from Pfizer's Covid pill which is said to have the potential to make a real difference in the pandemic, with a 89% reduction in hospitalizations and deaths among high risk patients. The company will apply for an emergency authorization as soon as possible. Finally, the always-amazing Elon Musk asked the Twitter community, through a poll, whether he should sell 10% of his Tesla stock, and said he would abide by the results. The value at stake is around US$ 20bn.

The week ahead will see the completion of most of the Q3 earnings season. With regards to economic data, the most interesting will be inflation numbers, especially the US CPI on Wednesday.

Stay safe.

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