



CIO OFFICE MORNING MARKET WRAP – 8th December, 2021. ALSO AVAILABLE ON ALEXA.

Risk appetite was definitely back on Tuesday with a greatly pro-cyclical session. Stocks gained +1.7% on average in developed regions led by the Euro area at +2.4%, followed by the US adding +2.4%, one of the best sessions of the quarter for Western indices. Stocks in emerging markets gained +0.8% on average. Equities outperformed bonds: interest rates were firmer across maturities, with the Treasury yields adding respectively 5,4, and 3 basis points on the 5, 10 and 30-year maturities. The 10-year closed at 1.47%. Consistently, the price of Brent crude oil also had a spectacular rebound, up +2.8% to close just above the \$75 mark. It was the strongest 2-day advance since April 2020.

Omicron optimism is the reason behind this risk-on pattern. Every day brings additional data and so far, crucially, the variant doesn't seem to be more severe than its predecessors. If anything, it could lead to milder illness compared to Delta. In addition, according to the first studies, Pfizer's shot has been shown to provide partial protection: the antibodies generated by the mRNA vaccine would be able to recognize the variant despite its important number of mutations. There are two caveats however. First, this is still early days and the observations have been made on a very limited sample. They are encouraging, but statistically still anecdotal. Second, the vaccine protection is said to be up to 40 times less effective than for the first iteration of the virus. Bottom-line, the worst is never certain but neither is the best. In the same way that an emotional reaction would have been wrong when the Omicron news hit the market, it's too early to take an aggressively positive stance and buy a dip which remains quite minor in absolute. Meanwhile, new restrictions are being put in place, with Norway being the latest one to tighten, especially by limiting the number of guests in private homes, on top of travel restrictions.

Our December tactical asset allocation committee was held yesterday and we didn't make any change. We remain reasonably constructive but keep on expecting elevated volatility in the near-term. There is no shortage of catalysts for turbulence, from central banks' response to inflation to rising geopolitical tensions. On the latter, the video call between Mr Putin and Mr Biden was not that benign, with mutual warnings of escalation around Ukraine. The US fears Russia might invade the country, while Russia considers the NATO expansion there as a direct threat. After the call, the US listed the sanctions that could be imposed on Russia, and the Kremlin described the call as constructive – Mr Putin is excellent at leaving the West guessing his intentions and actually committed to nothing. Mr Biden also has to deal with China's anger over the US threat to boycott the Beijing winter Olympics.

Staying in China, after Evergrande acknowledging an unsustainable mountain of debt and actively engaging with creditors, the focus turns to Kaisa Group: the trading of their shares was suspended in Hong-Kong pending an announcement. Nevertheless, Asian markets are also on the optimistic side as we write. All stock indices are in the green, led by Japan up +1.5%, followed by China onshore at +1.1% and Korea adding +0.8%. Tech stocks are sought after, following the 3% surge in the Nasdaq yesterday. Interest rates and gold are stable while oil prices are very modestly down. Bitcoin struggles to take off from the \$50,000 mark.

Finally but importantly, the UAE has announced yesterday a change in the working week, which will be four and a half day with the two day weekend shifting to Saturday-Sunday. The change will apply to Federal government entities in early 2022. The UAE's Minister of Human Resources and Emiratisation has called on private firms to take the change in consideration to create a more healthy working environment and boost productivity. The UAE is once again leading the world, becoming the first nation to introduce a shorter than five-day working week, and proving once again its vision of sustainable capitalism and prosperity, especially taking into account mental health and well-being, coupled with entrepreneurship and creativity. We don't know much about the potential implementation for the private sector, but we are ready to add a Friday morning version of our daily notes!

Today we will listen to various speeches from ECB officials and look at France business sentiment survey – hoping it will surprise to the upside like its German equivalent ZEW did yesterday. The EIA will also release their crude inventory report. The end of the week will have a greater market moving potential, with China inflation on Thursday and US CPI on Friday.

Stay safe.

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