



CIO OFFICE MORNING MARKET WRAP – May 9th, 2021. ALSO AVAILABLE ON ALEXA.

Markets gave a reasonably good start to the month last week. Most of the major asset classes we follow delivered modest but positive returns. Stocks gained 1.4% in developed markets and 0.1% in emerging regions, Gold had a strong 3.5% rebound, reducing its year-to-date loss to -3.5%. Interest rates were overall lower with the US dollar 10-year Treasury yield closing the week at 1.58%. The 5 and 30-year are respectively at 0.77% and 2.28%. The price of Brent crude oil continued its progression, adding more than 2% to end the week at \$68.25. Copper prices reached an all-time high, above \$10,000 for a ton.

With regards to market moving news, companies kept on delivering spectacular earnings for the first quarter of 2021. With respectively 80% of them having reported in the US and 70% in Europe, earnings per share are on average up almost 50% year on year, compared to Q1-2020. This is much better than what the consensus had anticipated. However, while earnings misses were severely punished, market reaction to beats was modest. This confirms our long-standing warning about the fact that positioning is already very bullish. This doesn't mean that everything is priced in, as this superior growth mechanically normalizes multiples. It simply means that there are limited marginal buyers to lift prices higher. This is one of the key reasons why we expect volatility episodes to happen again in the coming months.

The week was rich in economic data releases. We can summarize most of the PMI reports by saying that manufacturing activities are booming, and that services are resilient, showing more vitality where control over the virus is better: the US, the UK and China. Overall, numbers came out slightly below expectations from economists: interest rates took note, but risk assets were supported by upbeat earnings, especially as the medium term perspectives for the middle quarters of the year remain bright. There was however an exception in the constructive picture: the monthly US employment report for April, released on Friday. Job growth was way below expectations, with only 266,000 positions being created, while the median forecast was close to a million. As a result, unemployment rate unexpectedly rose to 6.1%. This didn't prevent stock markets from reaching another all-time high, for at least two reasons. First, the job issue seems to be linked to supply constraints rather than to demand weakness, as all the corporate and consumption indicators remain firmly in the green. Second, and maybe more importantly from a market point of view, this report only gives comfort on the Fed's accommodative policy in the short-term. The central bank clearly and repeatedly said that a booming job market would be the pre-condition to start reducing their support.

Elsewhere in the news, India has sadly hit a record number of single-day coronavirus deaths at 4000. More help, especially vaccines, is on its way from the international community. At the same time, the World Health Organization gave support to China's Sinopharm Group vaccine, which looks particularly relevant for mass vaccination even if it is so far not used in the West. Global total cases have passed the 156 million mark and the virus has killed more than 3.2 million people globally. The good news is that the pace of vaccination steps up everywhere, and new cases have started to ease again in parts of Europe, like Germany.

Elsewhere in the news, a cyberattack has shut down the biggest US gasoline pipeline on Friday, the latest in a series targeting companies, public services and infrastructure which has prompted the US White House to respond with a dedicated plan.

The week ahead will keep on seeing corporate earnings for Q1 and various speeches from Fed officials. Monthly consumer price indices will be released for the US on Tuesday and for China on Wednesday. US retail sales will be important on Friday. Please note that our daily investment notes will not be sent during the imminent Eid Al Fitr holiday in the UAE.

Stay safe.

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