



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

Tuesday was mixed on global markets. Stocks traded roughly unchanged on average, with Europe and the US marginally up, while Emerging Markets and Japan were slightly down. Bonds were sought after. The 10-year Treasury yield lost 4 basis points to 1.53%. The trade-weighted dollar gained 0.1%. The price of Brent crude oil came back to positive territory, gaining 0.9% to \$72.1.

There were interesting news from Washington. First, on President Biden's infrastructure plan, the Democrats and the Republicans failed to agree on the total amount and its funding. As a result, a downsized bill should be able to be passed using the budget reconciliation procedure which requires less votes. By contrast, a bill to invest close to \$250 billion to meet the manufacturing challenges from China, from medicines to semiconductors, was passed. China is also on the news. First, the US and EU agreed to revive the investigation into the origins of the coronavirus. Second, Chinese regulators have formally asked banks to perform stress tests on their exposures to the prominent and highly indebted real estate developer China Evergrande Group. Bonds and shares of the company are under pressure for a couple of weeks, including this morning as it appears that the concerns have now reached

the senior levels of Chinese government. Evergrande joins Huarong in the hot seat of troubled bond issuers.

Chinese markets are not overreacting to this stream of concerns as we write. Both onshore indices and Hong-Kong are slightly up, probably helped by a lower than expected rise in the just released consumer price index. The inflation gauge is up 1.3% year on year in May, while the median forecast was for 1.6%. The Producer Price Index was however much higher, at 9%, above expectations. So far, the factory inflation hasn't made its way into consumer prices, and the central bank is certainly not targeting reflation in China, which probably explains markets' steadiness. Elsewhere, stocks are slightly down in Japan, US equity contracts and interest rates are stable while oil prices continue to be firmer.

We held our monthly tactical asset allocation committee yesterday. After a long debate, we decided to rebalance some of our active positions, mostly reducing our large overweight on stocks, to increase our positions in hedge funds. Don't get us wrong: we are still constructive and remain overweight equity and underweight fixed income. However, given elevated valuations and some warning signs in terms of investors' positioning, implied volatility, and pockets of excessive speculation, we believe that the probability for turbulence is slightly higher entering the summer. Timing the market is impossible, so it's also about discipline. Our Strategic Asset Allocation is reset to its initial weightings at the end of each quarter, and we don't want to enter the second half of the year with our highest overweight ever in stocks, which was our stance in the first half, so far with success. Bottom line, we remain constructive for H2 but are less outright bullish as we were in H1, and cannot exclude volatility episodes looking forward, which may anyway be opportunities to add to risk. Bottom line, our positioning is less, but still clearly, overweight equities. Our underweight in bonds and neutrality on cash are unchanged. We have increased our positions in hedge funds now close to neutrality and have also made minor adjustments in other alternatives, especially reducing our gold exposure to neutral after the strong May rally.

Today we will have a look at the EIA crude oil inventory report, but the important data of the week is tomorrow, the US CPI at 4.30PM Dubai time. Thursday will also see the ECB holding their monthly meeting, and Iran nuclear deal talks reconvene in Vienna.

Stay safe.

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