



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

Monday was not bad for global markets, with modest but positive returns across most asset classes. Global stocks added +0.2% in developed markets and +0.4% in emerging ones. Interest rates were firmer especially on shorter maturities: US Treasury yields added 6 basis points on the 5-year maturity to 1.12%, 4 basis points to 1.49% on the 10-year, but lost 1 basis point to 1.88% on the 30-year. This looks like short-term inflation worries, combined with long-term growth concerns. The price of Brent crude oil moved up 1.2% to \$83.7, gold held the \$1820 level, and the trade-weighted US dollar was weaker by -0.4%, mostly losing against the euro and the yen.

This obviously looks like tranquil day – and it could obviously change, as markets are actually waiting for more clarity on inflation risks. Monthly releases will start today with the US Producer Price Index, expected to show a spectacular +8.6% year on year increase, will continue tomorrow with both PPI and Consumer Price Index in China, and culminate on Thursday with the US CPI – the median forecast is for a +5.9% year on year increase. That's not small numbers, and the anxiety of market participants is of course that inflationary pressures could last longer than central banks expect, and force them to act on interest rates sooner than they themselves carefully suggested. Our scenario is actually reasonably constructive. Covid caseloads are more or less stable globally and quite improving in Asia, where a significant chunk of the supply-chain glut is located. No doubt, it takes more time to reopen a semiconductor factory than a restaurant, however suppliers and logistics are also reopening. This, combined with hopes on anti-viral treatments, supports the idea that the recovery will keep on

progressing. Having said that, we still expect volatility ahead and a bumpy road to a positive conclusion. There is no shortage of reasons for concerns from market participants.

Among them, the US Fed published yesterday their Financial Stability Report, which basically issued warnings about everything – except of course, a bit ironically, the number one concern for markets which is the risk of the Fed making a policy mistake. The report warns about the risk of global contagion from China's commercial real estate troubles, but also about the risk of a market crash due to the rally in risky asset prices. Again, it's difficult not to smile thinking about the fact that the Fed's generosity is the single most important driver behind the rally. Finally, they warn about the crypto sphere in general, and about stable coins in particular. Leading cryptocurrencies responded this morning with both bitcoin and ether reaching an all-time high at respectively \$67800 and \$4800. We do not advise on crypto assets, but actually share the concern on some stablecoins, which are supposed to be without risk but are certainly not. Regulation may be coming, and it would be welcome, for those "digitalized fiat currencies" without overseeing. Staying with the Fed, Joe Biden interviewed Fed Governor Lael Brainard who is running to replace Jerome Powell as chairman, which also made some waves in fx and interests rates markets. As humble Fed watchers, we would praise the action of Mr Powell so far, who has brought the level of trust between the institution and market participants to a new level, by resisting political pressure when it was justified, act decisively when it was needed, and set new standards of communication. This of course doesn't mean that Mrs Brainard would not be a great chairperson as well, but nobody likes uncertainty. The decision should be made by the US President in the coming weeks.

In other news today, Google entered the very exclusive club of the \$2 trillion companies, joining Saudi Aramco, Apple and Microsoft. It doesn't feel like ages ago when a company reached the \$1 trillion mark for the first time – and it actually wasn't that long ago: Apple added the 13th digit during the summer of 2018, and is now valued at \$2.5 trillion. Stunning numbers. By contrast, Tesla share price took a hit yesterday following the very unorthodox Twitter consultation from the very refreshing CEO Elon Musk to decide whether he should sell 10% of his holdings in the company. Twitter said yes, and the share opened sharply down before partially recovering and close at -6%. The market cap however retains its 13th digit, still worth \$1.1 trillion which is not far from 200 times its expected forward earnings.

As we write this morning, Asian markets are marking a pause in the global rally with most stock indices modestly down, around -0.2% across Japan, Korea, Hong-Kong and onshore China. Interest rates are slightly lower with the US 10-year at 1.46% and oil prices are stable. Crypto are accelerating as we write, with the \$68.000 level being just breached by bitcoin, up 3%.

We will of course look at US PPI later today, and have a look at trade numbers in Europe and the ZEW survey in Germany. The EIA will release their short-term energy outlook, which may impact the potential decision of the Biden administration to release crude from the strategic reserves. On oil, we may also hear from Iran's negotiators heading to Europe and advocating for less economic pressure on the country. Corporate earnings will include BioNTech, Nissan or Bayer.

Stay safe.

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