



## **CIO OFFICE MORNING MARKET WRAP – Sunday January 10<sup>th</sup>, 2021. ALSO AVAILABLE ON ALEXA**

The first week of 2021 was eventful and volatile, but positive for cyclical assets.

With regards to events, the action came once again from the US political arena. With a record voter turnout, the last undecided two seats in the US Senate were won by the Democratic candidates. This provides to President-elect Biden's party a short majority for the entire congress. This is enough to allow more fiscal stimulus to be passed, but this is not the massive lead which would have been needed to drastically change regulations and taxes. Markets took note of what looks like a perfect outcome: more stimulus, without the most progressive items of the Democratic agenda. Following violent events in the Capitol in Washington, President Trump is losing support from his own party in the last weeks of his administration. He also said that he won't attend Joe Biden's inauguration, breaking an almost secular tradition in the US. House Democrats have decided to move toward an impeachment procedure against him, and more importantly from an investment perspective, Joe Biden called for trillions of dollars in immediate stimulus.

This could just be the right time. Economic data were overall tepid last week, with services PMIs in the West explicating a severe toll from the resurgence of infections. On Friday, the monthly US job report was simply awful: while consensus was expecting 50 thousands job creations in December, 140 thousands were actually lost. Details were not all that terrible, with steady hourly earnings in particular. Consumption numbers were also below expectations in Europe under more and more mobility restrictions, and the same number for the US, released next week, should follow.

Against this backdrop, markets keep on looking through the current wave of covid. Boosted by the perspectives of more fiscal stimulus in the US, which would benefit the global economy, stocks in emerging markets added almost 5% last week. They were followed by their developed counterparts, up 2.4%, with a clear lead from cyclical sectors. The Fixed income asset class, on which we are underweight, was down. The 10-year Treasury yield closed at 1.12%, a level not seen for almost a year. This put some pressure on Gold, down 2.6% over the week, while its 21st century predator, Bitcoin, reached 40.000 for the first time ever. We keep an overweight in Gold for this very reason: if the stratospheric level of cryptocurrencies indicates the need for a store of value protected from currency debasement, then gold shouldn't just react to interest rates.

In the week ahead, we will of course follow the US politics, look at a couple of economic indicators, especially inflation in the US, and listen to Fed chairman Powell. The most important for us however will be the start of the Q4 earnings reporting season. This will not only provide us with a clearer picture of 2020 and the current valuation multiples, but importantly, hints on behavioral factors. One of the reasons why we remained fully invested in Q4 was that many pessimistic investors had to catch-up and buy. This is not the case anymore, and warning signs of excessive optimism have started to flash. Analyzing the market reaction to corporate numbers will give us an indication on where we are in terms of sentiment and positioning. If good news do not have an impact, this would be a worrying sign of congestion. We will also hold next Tuesday our monthly Tactical Asset Allocation Committee and probably make some changes, following the reshuffling of our Strategic Asset Allocation at the end of 2020. We have added to emerging markets for the long term, and tend to believe that stars are also aligned for the medium term.

Stay safe.

**MAURICE GRAVIER**  
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