



CIO OFFICE MORNING MARKET WRAP – Wednesday 10th March 2021. ALSO AVAILABLE ON ALEXA.

Tuesday was interesting on global markets, with what we could call a “rotation of the rotation”. While the previous days were all about rising interest rates, scarce bidding on government bond issuance and growth stocks selling off, yesterday was the exact opposite. Interest rates went down across the curve, losing respectively 5,6 and 8 basis points on the 5-year, 10-year and 30-year maturities. The US Treasury’s \$58bn sale of 3-year notes was oversubscribed 2.6 times, the highest ratio in almost 3 years. Finally but not anecdotally, the technology-rich Nasdaq 100 surged 4% with Tesla jumping 20%. As a result, global stocks added 0.6% on average in developed markets and lost -0.2% in emerging markets, which were closed when the US started to rally. In a consistent move, the price of Brent crude oil moved down 1.1%, closing just above \$67.5 and Gold prices were lifted above the \$1700 mark.

We repeat it again and again, like a broken record: volatility should not come as a surprise this year, and we firmly believe that it makes any attempt at timing the short-term delusional. This also highlight the benefits of being diversified rather than binary. This is why our monthly tactical asset allocation committee decided yesterday to keep our positioning unchanged. We believe that the current inflationary pressures are

temporary. The stress on rates will be followed by a stabilization and ultimately lower levels, once the sharp bounce of the early stages of the recovery is behind us. We underweight fixed income, especially the safest segments, and overweight stocks, for the time being both developed and emerging regions, with a structural preference for the latter. We still own Gold and cash as our preferred defensive asset. If anything, we would look for opportunities to put the cash at work should we see more of the current “disorderly reflation” trade. We would be buyers of US-10 year Treasuries around 2%, would consider adding to Gold on material weakness with \$1600 looking like an irresistible level, and won’t forget stocks should they materially correct especially in emerging markets.

There was no clear game-changing catalyst behind yesterday’s “rotation of the rotation” and we wouldn’t read too much into it, in a context where speculation frenzy is massive, blurring the link between fundamentals and market action. With regards to economic data, the OECD sharply raised their 2021 growth forecast to 5.6%, due to the deployment of vaccines and US stimulus. They expect the US economy to climb by an eye watering 6.5%. Looking backward, a range of 4Q20 GDP releases took global growth marginally lower for last year – which also creates a positive base effect for 2021. This affected Europe and Japan in particular. However, for the time being, high frequency data keep on showing that the material increase in mobility seen in February is not reversing in March. Before their monthly meeting scheduled this Thursday, the ECB said that they increased the pace of their bond buying last week. This gives us comfort for an energetic verbal guidance being given tomorrow to express a firm willingness to cap interest rates. It may not be as historic as Mr Drahi’s famous “whatever it takes” but on a similar line, with the credibility of having almost 1 trillion EUR of dry powder still left in the emergency plan envelope.

As we write this morning, stocks are well oriented in Asia. Chinese shares are rallying, Hong-Kong advance and Japan, which was up yesterday on a weaker Yen, is flat. Interest rates are marginally up by around one basis point and futures on oil prices are consolidating a bit further, close to \$67 for the Brent contract.

The only certainty we have for the short-term is an elevated volatility, as markets try to balance the benefits of the recovery with their negative consequences, with added risks from an unanimously bullish positioning and intense speculative activity. But we are confident in some form of constructive stabilization later in the year, should we be right on the scenario.

Stay safe.

MAURICE GRAVIER
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