



CIO OFFICE MORNING MARKET WRAP – 10th August, 2021. ALSO AVAILABLE ON ALEXA.

Stocks were a bit mixed across the board. Should they stop rallying as odds are rising that stimulus will soon start to be withdrawn, or should they rally further just because the reason stimulus will be pulled back is stronger growth? This is the conundrum facing investors. The answer to the apparent puzzle is that liquidity is the overpowering driver, so less liquidity is never a good thing in and of itself, but being economic growth quite solid, volatility should be contained. In summer the effect will be compounded by market liquidity seasonally ebbing as more market participants take a break, so August could be a bit choppier. Also, year-end, though seasonally strong, could see virus resurgence and looming tapering implementation as headwinds. Overall, it looks like we should expect more muted returns for the remainder of the year.

Yesterday, defensive assets lost further ground, with the 10-year yield consolidating above 1.3% and gold briefly tumbling below \$1,700. Brent crude was also weak, approaching a two-month low, while the US dollar strengthened. Strong US jobs openings consolidated the view that this time good news could not be that good, reinforcing the outlook for the Fed to lean more hawkish.

Ebbing liquidity remains the keyword, and the dollar is responding accordingly, by strengthening. With China slowing down, DM growth very robust, but close to peaking, and investors focused on the next Fed move, policy is taking center stage. The late-August Jackson Hole symposium could give the Fed the opportunity to issue an official statement adding clarity as to what the plan on tapering is. So far Powell has impressed investors with his colorful 'Powellisms', but little else, by saying very little to nothing on future action in spite of his very original and captivating language. With price pressures having primary relevance for monetary decisions, the inflation release on Wednesday will also be eagerly awaited.

Talk on climate change is becoming more and more recurrent and even relevant for financial markets, be it because it poses a risk to business as usual, or because sustainability is the new buzzword across asset classes. Scientists for the first time have put full responsibility for climate disruption down to human activity in a written report. The remedial action would, of course, be to cut pollution by some relevant amount within a certain deadline. We certainly believe that cutting carbon emissions would be of great help, while we also believe that ramping up net-zero policies as the Amazon deforestation continues at today's rates is like trying to empty an ocean with a bucket. Recently president Bolsonaro, called to task for not doing enough against deforestation, provocatively said that the world should pay for the positive externalities provided by the Amazon forest. Considering the new fast and furious determination to go green, why is nobody stepping up to that plate?

Stay safe.

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