



CIO OFFICE MORNING MARKET WRAP – Sunday October 10, 2021. ALSO AVAILABLE ON ALEXA

Volatility remains the name of the game on global markets, but the week that just ended made a clear difference between cyclical and defensive assets. An avalanche of economic data painted an interesting picture of the outlook. On one hand, PMI numbers across regions were overall robust, especially in the manufacturing sector where indices were either better or in line with expectations. According to broader composite PMIs, with 50 being the threshold between expansion and contraction, the US is re-accelerating with both components close to 60, Europe is steady above 55, China comes back just above the 50 level, with a strong uptick in services, and India continues to rebound at 55 – the UAE index was at 53.3, a tenth consecutive month of expansion. This is just monthly data for September, however it fuels the hope of a positive turn in global economic momentum after a definitely soft summer. On the

other hand, data also converge to signal strong increases in prices: the global consumer price index could approach an average of 4% annualized in the second half of 2021. Transportation bottlenecks remain problematic, and pressure from higher energy prices is only rising. Finally, the week ended with a clear disappointment in the monthly US job creations. Non-farm employment increased 194,000 in September, falling short of an average forecast of 500,000. No doubt, the headline number was poor, however, details were not that bad. First, numbers for previous months were revised materially higher by more than 150,000 cumulated. Second, granular data tend to indicate that a significant part of the disappointment is linked to supply issues rather than demand. The unemployment rate, interestingly, fell by -0.4% to 4.8%. Bottom line, the job market is not buoyant but it is not depressed: the outlook is not threatened, which means that the Fed certainly remains on track to start tapering in November.

To summarize, the global economy has regained momentum in September, while supply shocks are still present, and central banks should continue to progress towards normalization. No surprise then that weekly returns were better for cyclical than for defensive assets. Stocks added +0.7% in developed markets and +0.9% in emerging regions, with China domestic exchanges reopening after a long holiday. Oil remained in high demand, with the price of Brent crude oil gaining more than 4% to close at \$82.5. By contrast, bonds fell with a sharp rise in interest rates: the US 10-year Treasury yield added a record 15 basis points to end the week at 1.61%, quickly approaching our year-end fair value of 1.75%. We have already seen a higher level this year, but the pace is significant, around +40 basis points since an August low. This weighed on the entire fixed income asset class, down -0.8% on average with high yield outperforming the safest segments. Gold limited its loss to -0.2% and held \$1750, which also happens to be our year-end fair value.

Talking about our views, our monthly tactical asset allocation committee was held last Tuesday. We decided to maintain our pro cyclical stance by reconstituting a small overweight on emerging markets stocks. We are aware of the short-term headwinds, but valuations are much more attractive than in developed regions, with superior long term growth prospects. We are overweight on stocks by an average 3 percentage points across profiles, of which a third on emerging markets. This is funded by an underweight in fixed income, where emerging markets are our preferred segments. We are close to neutrality on alternatives, as well as on cash: we still expect volatility ahead and the ability to quickly buy on material weakness is definitely something we want.

Among the other news, we would highlight two topics. First, the US Federal debt ceiling debate is not over, even if a temporary deal has been reached. History however teaches us that an agreement is always reached at the end of heated political postures, as no party wants to take the responsibility of a government shutdown. We reckon that markets could be scared but are not overly concerned. The second topic is crypto assets -on which we do not provide advices. The resilience of crypto prices is impressive, despite China declaring all crypto transactions illegal two weeks ago. After an initial drop, the prices of leading digital assets are back to previous levels. Now all eyes turn on the US: Joe Biden is said to be about to issue an executive order to start the process of regulating from both financial and national security perspectives. With an interesting timing, the SEC has received 4 applications for the potentially first US listed Bitcoin ETFs, which would invest through future contracts rather than on the blockchain itself. So far no project had been granted approval from the US regulator.

The week ahead will refresh inflation numbers across the world, with the US CPI being the most important on Wednesday. The consensus expects a +0.3% month on month increase leading to a +5.3% year on year progression for the headline number. We will also get various business surveys including the German ZEW and the Empire Manufacturing. Stay safe.

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