



CIO OFFICE MORNING MARKET WRAP – Wednesday August 11th, 2021. ALSO AVAILABLE ON ALEXA

In the Asian morning session stocks are headed higher as investors eagerly await the key US inflation report to be released today. US and European futures are fluctuating, Treasuries falling and the dollar is steady.

Stocks were mixed in the US, with the technology sector showing signs of fatigue from rising yields, while Europe managed to eke out modest gains. The yield on the 10-year note climbed for the fifth consecutive session to settle at 1.35%, the dollar advanced, Brent crude rebounded from two-month lows and gold was unchanged. Semiconductor stocks featured amongst the worst performers of the Nasdaq 100, which could be concerning since the sector, a bellwether for the health of the economy, tends to lead advances and declines in the broader index. Longer-duration stocks in general did not fare well, with Amazon and Alphabet in negative territory.

Tech investors may have been fretting a bit on Fed's Bostic words on Monday, who urged a faster taper as the US economy strengthens.

Small business optimism pared back in July as shortages of qualified labor hampered companies' ability to meet demand. Business owners became more cautious about the outlook and their sales expectations over three months tumbled to a five-month low as supply chain disruptions impacted their business. But those bottlenecks will ease once more Americans enter the labor market. The share of owners intending to hire over the next three months held close to a record. Investor confidence in Germany dropped for very different reasons. The August ZEW report pointed to a continued rebound of the German economy, but to a loss of its momentum. Declining ZEW expectations reflect an easing future outlook on a stronger base of comparison. Rising infections also stoked concerns about future restrictions on the economy.

The Senate passed the \$550bn infrastructure bill, so far a win for Joe Biden's agenda, though the approval process in the chamber still lies ahead. But this is going to happen only once the Senate has passed also the more sweeping \$3.5tn legislation on new policies related to climate change, taxes, healthcare and immigration amongst others. That package would come along with tax hikes on the wealthy and corporations to pay for the social agenda, expected to make progress after the summer break. But the almost 50-50 Senate split requires every Democratic vote for approval to occur, even of the ones insisting on a more bipartisan deal. It seems the Democrats will try to push the legislation through without GOP support. An irate Minority Leader Mitch McConnell said that that would then have implications for the extension of the debt limit. And Joe Biden could be tempted to avoid Republican support for that as well using the so called reconciliation process that requires 50% consent only. Janet Yellen must have sensed the growing risk related to a harsher confrontation and called for lawmakers to raise the ceiling in a bipartisan manner. She sensibly remarked that "the vast majority of ... the debt limit was accrued" before the Biden's term, hence it represents a shared responsibility.

Please be advised that this is the last issue of the Morning Note before the summer break. Publication will resume on August 24. The CIO Team wishes everybody a happy summer time. Stay safe.

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