



## **CIO OFFICE MORNING MARKET WRAP – Tuesday 12th January 2021. ALSO AVAILABLE ON ALEXA.**

After a strong first week of 2021, Monday's session on global markets was negative on pretty much everything. The short-term headwinds from the virus are strong, in a context where firmer interest rates question elevated stock valuations, and where, importantly, sentiment and positioning are now unanimously positive, creating vulnerability. Global stocks fell 0.6% on average across developed and emerging regions. The price of Brent crude oil moved down by the same percentage to \$55.5.

It was not a typical "risk-off" pattern as interest rates were steady, with a 3 basis points increase in the US 10-year Treasury yield closing at 1.15%. The dollar continued to gain, appreciating 0.5% against its trade-weighted counterparts. This also weighs on gold which trades around \$1850.

On our investment notes today: an update on the virus, on US politics, and encouraging economic data for the UAE.

On the virus front, infections are rising everywhere with new variants being identified in several countries. The global death toll is sadly approaching 2 million. The UK is mulling additional restrictions and has reduced the number of countries on its air

corridor, including, weirdly, removing the UAE. Infections are at a record high on a daily basis globally but there are good reasons to hope. Studies tend to indicate that the available vaccines should be effective on any variant, new options are coming with J&J about to submit its phase 3 trial data, and treatments are also progressing, with the UK saying they successfully use an arthritis drug from Chugai on critically ill patients. The pace of vaccinations is also impressive, with 1.25 million dose in a day in the US. Israel's campaign is also producing early positive signs on the spread and severity of cases, which bodes well for the UAE, also extremely advanced in the process.

To stay in our country, Purchasing Manager Indices indicated its first expansion in 3 months, at 51 in December compared to 49 in November. Dubai's non oil private sector economy is back to growth, thanks to its successful pandemic response. The rebound is not strong enough to create jobs yet but it shows a very welcome inflection, already in 2020. Finally on US politics, The Democrats are moving closer to an impeachment vote which could take place tomorrow against President Trump, for inciting the mob on the US Capitol. This may look a bit surprising as this is anyway the last week of the current administration. However, the attack was terrible, and we can remember that the Democrats were dreaming of impeachment pretty much from the first day in office of President Trump. It shouldn't have a material impact on markets, unless violent protests take place in the US of course.

As we write this morning, the Asian session is mixed but shows more resilience than panic in a backdrop of raging virus, stronger dollar and higher interest rates. Shares are rising in China and Hong-Kong, but are down 2% in South-Korea. The latter is not that surprising given its spectacular start of the year, up 10% last week. Japan is flat, reopening after a holiday yesterday. Oil prices and interest rates are little changed, while futures on Western stock indices are fluctuating around 0, very marginally up as we write.

We will hold our Tactical Asset Allocation Committee today. Our positioning is moderately bullish, with an overweight in stocks and an underweight in fixed income, especially in the most defensive segments. For portfolio protection, we keep on favoring cash and gold, and we look for yields and capital appreciation in emerging regions in particular. Our views are based on a scenario of economic recovery, boosted by policy stimulus, but we acknowledge that the support from behavioural factors is not there anymore. The investors' community is now exposed and optimistic, we may have to change our playbook from the "buy the dips" of 2020 to "sell the strength" in 2021. No major economic data or company earnings are expected today.

Stay safe.

**MAURICE GRAVIER**  
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