



## **CIO OFFICE MORNING MARKET WRAP – 13th June, 2021. ALSO AVAILABLE ON ALEXA.**

The S&P 500 recorded its third straight weekly gain following some listless sessions in the five days through Friday. Technology and healthcare stocks outperformed, with yields headed lower despite strength in the economy and more signs of rising inflation. Crude oil surpassed the pre-pandemic highs, gold edged lower and the US dollar gained across the board.

The goldilocks backdrop continued for the week, with tailwinds from the economy supporting risk assets and rising inflationary pressures not perceived as threats by investors. US economic indicators painted a rosy picture, from small business optimism to job openings and consumer sentiment. In Europe industrial production gave mixed signals across the common area, but market participants continued to pour money in European stocks looking to a brighter outlook driven by the reopening of business activity. China seems to be making progress on two fronts - supporting the economy and capping corporate borrowing, with government bond issuance picking up, eventually translating in a boost to infrastructure, and total borrowing slowing down. The stand-out release for the week was the US CPI report, which showed inflation spiking to 5% versus a year earlier for the month of May, highest since 2008, and above expectations on a month-on-month basis as well, indicating more than just base effects at work. Reopening-sensitive categories dominated price pressures, supporting the view that the impulse should be largely due to transitory factors. Yet, with supply shortages in full swing and households flush with savings, inflation could subside substantially only in 2022.

When studying recessions one often comes across the caveat that none is like the other, and this could not be more true of the Great Financial and the Covid Crises. At the G7 summit held in Cornwall Joe Biden won support for a “carry on spending” plan, throwing to the wind years of austerity-inspired interventions on both sides of the pond after fiscal deficits ballooned to bail out the economies following the Great Recession in 2008. The very concerns about rising public debt which were at the forefront of authorities’ minds back then, seem to have been now displaced by attempts to leave no stone unturned to ‘go big’ in terms of more fiscal stimulus. Will erring on the opposite side of the public finance spectrum be the plain and simple remedy this time? What about the future generations shouldering the burden? “The Fed should change its policy regime. It should not tolerate Fed-financed fiscal expansion”, as per Kevin Warsh, former member of the Federal Reserve Board.

US president’s plans for infrastructure and voting rights face increasing hurdles in Congress. On infrastructure Biden will now turn his attention to working with a bipartisan group of eight senators to work out a compromise gaining support from both parties, still wide apart in terms of size and scope of measures. The \$2.3tn plan is now unlikely to make it in its original form and disagreement is such that eventually part of the infrastructure package could be approved with bipartisan support and part via the so-called reconciliation process.

The International Energy Agency urged OPEC+ to boost output to keep the market balanced, predicting that oil demand next year will recover to pre-pandemic levels. That would be much earlier than its previous forecast of 2023. This is just one out of many calls made by key stakeholders to avert an overly tight market. How do the reduced investments required in the sector to allow for zero carbon emissions get reconciled with the ongoing recovery and the need for the commodity-intensive revamping of infrastructure in the developed nations? It is funny that it is going to be the new green urge, as well as the urge to ‘go big’ to drive the next oil super cycle.

The week ahead: On Monday a NATO summit will be held in Brussels to discuss amongst others cyber-attacks and the rise of China, Industrial Production will be released in the Eurozone and in Japan, in India CPI and Wholesale Prices, and in Saudi Arabia the GDP; on Tuesday the EU-US summit will be held in Brussels to reset relations with the US, in the United States Producer Prices, Retail Sales, Industrial Production and the Empire Manufacturing will be released; on Wednesday the FOMC rate decision will be delivered, the EIA Crude Oil Inventory Report and in China Industrial Production and Retail Sales will be released; on Thursday Janet Yellen will testify on budget before the House Ways and Means Committee, the SEC decision on the Bitcoin ETF will be delivered, in the United States the Initial Jobless Claims and the Leading Index will be released.

Stay safe.

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