



CIO OFFICE MORNING MARKET WRAP – 13th July, 2021. ALSO AVAILABLE ON ALEXA.

Asian stocks were higher in the morning session following gains in the United States, with Japan and Korea in the spotlight. US stocks made new all-time highs amidst pretty narrow breadth ahead of the second-quarter reporting season starting this week, with financials, real estate and a bunch of IT mega caps leading the gains. Treasury yields, gold and the US dollar were little changed. The earnings of Bank of America, Blackrock, Citigroup, Goldman Sachs, JPMorgan and Morgan Stanley will be in focus. The US consumer price index, released later today, will also be closely watched as investors try to gauge whether inflationary pressures are as transient as the Fed claims following the reopening of the economies. Cryptocurrencies continued to trade in tighter ranges, with bitcoin finding strong resistance above 35,000 since the end of June. Guggenheim Investments chairman Scott MinerD recently said that he believes that the digital currency is in a 'crash' that could take it to as low as 15,000.

The exit from ultra-easy policy seems nowhere to be near for the ECB, following new guidance to be announced at the July meeting and new support measures which should replace the current emergency bond-buying programs expiring next year. Those programs could "transition into a new format" ms Lagarde said. By making clear that it is not the case that "the

exit is in the next few weeks, months”, the ECB president is aligning herself more and more with Jay Powell by implementing a seemingly never-ending status of accommodation.

With policy differentials the primary drivers of currency crosses, the euro is starting to discount the new state of affairs, shifting from trader beliefs in May at 1.22 that Fed tapering was not on the forecast horizon, to a new focus, now that it is trading 2.5% lower against the dollar, that ECB asset purchases will be prolonged for quite some time.

In the China official PMI the new export orders component contracted in May and June. Hence, June trade numbers to be released today should convey a picture of moderating export growth.

If the impulse to drive the Chinese economy out of its slowdown phase is not to be found in external demand, nor in consumption which is growing at too moderate a pace to be of any help in this respect, investors will have to be looking elsewhere for reasons to be bullish Chinese stocks. Beijing is well aware of the need to support activity after a prolonged period of tightening and regulatory crackdown and should turn later this year to increasing investments, by means of new rounds of infrastructure projects via local government financing. Chinese equity weakness should abate with markets starting to focus on the significant valuations differential with US stocks and the new measures reviving domestic growth.

Multiple factors point to the fact that the easiest and largest equity gains may be behind us for the year and positioning is one of these. Investors have an almost unprecedented exposure to equities according to Deutsche Bank AG. Of the two categories taken into account by the investment bank, Discretionary Investors seem to have long since embraced stocks, now with an exposure in the 94 percentile, 100 being the maximum possible, while Systematic Strategies are quickly catching up, currently in the 78 percentile, up from 38 in the spring. With US business confidence most likely having peaked in March and Q2 revenue and earnings growth at their height for the cycle, one should beware that high-single digit drawdowns absent in the first part of the year could torment investors in the second.

Stay safe.

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