



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

The prevailing mood for investors last week was anxiety: the pandemic is slowing the recovery, central banks are about to start reducing their support, and several Wall Street strategists have warned about the risks of currently elevated valuations in the developed world. Emerging markets are much cheaper, however, they have less control over the virus, and critically, China's regulatory pressure on their most successful listed companies shadows the near-term outlook.

The new international week starts with exactly the same concerns, including an acceleration in Chinese crackdown. According to the Financial Times, China has the intention to break up Alibaba's financial services, after having de facto blocked the IPO of the giant fintech Ant Group. The authorities are said to aim at splitting lending units within Alipay and at imposing a joint venture with the state, taking care of the data behind their extremely advanced credit scoring system. We may see a form of karma there: almost exactly 10 years ago, Alibaba CEO Jack Ma had unexpectedly taken full personal ownership of the Alipay unit without knowledge or approval of other

shareholders of the group. Anyway, there is no doubt that Beijing is extremely serious about tech and fintech control. This leads to a complicated backdrop when it comes to investment decisions in China. On one hand, the top-down picture is compelling: any cyclical re-acceleration would benefit the world's second largest economy, especially as some form of stimulus may come back there soon, valuations are accessible and they pay little justice to the long-term growth prospects. However, on the other hand, the bottom-up is dominated by the risk of authorities cracking down on their most successful companies one after the other, relentlessly. Interestingly, this leads to serious performance divergence, depending on whether stocks are widely owned by international investors or not, and on their sector and market cap. According to Bloomberg, US traded Chinese stocks have fallen -40% from their February peak, while the broader MSCI China is down -25%, and domestic markets are more or less flat over the same period. Selectivity matters!

No surprise then when it comes to Asian markets this morning: Hong-Kong, home to the listing of Chinese megatech and mega (indebted) real estate developer falls -2% as we write, while China's domestic indices are only down -0.4%. Stocks are slightly down everywhere, from Japan to South-Korea and India. To add to the regional mood, North Korea just announced another missile test. They claim that their new cruise weapons have hit a target 1500km away, which means that Japan would be within their range. Future contracts on Western stock markets are also slightly lower, while government bonds and gold are sought after. Oil prices are the only cyclical asset in favor, with future contracts on Brent rising above the \$73 mark.

Back to the west, and to the US in particular: President Biden's \$3.5 trillion tax and spending plan is facing reluctance from the congress, including Democrats in the US House. They disagree with Biden's proposed raise of tax rates, to 28% on corporates and almost 40% on capital gains. They are proposing milder hikes to respectively 26.5% and 25%. It's still an increase, but as the tax revenues would be lower, the spending amount could also be adjusted. The trajectory of fiscal stimulus may be uncertain, but the direction of monetary stimulus is unequivocal. The President of the Philadelphia Fed just said tapering should start "sooner rather than later". Alternative currencies may also see more pressure: the US Treasury is mulling launching a formal examination of so-called stable coins. The firm behind USDT in particular could be considered as a systemic entity. So far, the relations between the Tether company and the US authorities haven't been smooth, raising questions on the transparency of what is considered by most crypto investors as a safe haven. After all, it's always worth one dollar and always available. We do not advise on crypto assets but frankly, we have concerns about a potentially dangerous disconnection between risk perception and reality when it comes to some stable coins.

Is there any good news somewhere this morning? Of course, there are. First, the UAE has reported another sharp drop in daily infections, now below 700. Second, according to S&P, global corporate spending is booming, with an expected 13% rise this year. We are talking about capital expenditure, on plants and machinery. There are several drivers, from addressing the current bottlenecks in the supply chain to moving to more environment-friendly production, and of course, the lowest real interest rates in decades. From an economic point of view, capex is not just good for the near-term, but also for long-term growth through productivity gains. This is another reason to remain reasonably confident for us. We remain overweight equities and underweight bonds.

Today we will look at the OPEC monthly oil market report as well as the EIA drilling report. General elections will be held in Norway and many European countries will sell government bonds. Tomorrow will be interesting for both top-down data, with the US consumer price index, and bottom-up stories, with Apple holding its product launch event. The latter is always interesting, and it may be even more so as the world's most valuable company is also having to deal with components shortage and key antitrust ruling for its Appstore. Stay safe.

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