



CIO OFFICE MORNING MARKET WRAP – Tuesday 16th February 2021. ALSO AVAILABLE ON ALEXA.

Stocks closed on a stronger note across the EM countries, in Europe and in Japan, alongside US futures pushing to new highs on occasion of the Presidents Day holiday. Treasury futures lost ground with gold, while Brent crude continued to hold gains well above \$60bbl. The latest market sessions have been of historical significance, as the Nikkei 225 Index has cleared for the first time the highs recorded in 1990. There is still a challenging 29% separating the current index level from its historical peak, which marked the bursting of the devastating real estate bubble in 1989.

The Japanese market is particularly cyclical, hence its performance is a testimony to the success of the reflationary policies implemented by central banks and governments, especially in the United States. Emerging market equities, no doubt sitting as well on the extremely cyclical end the spectrum, rather than on the defensive one, are on a tear too, nicely outperforming DM stocks year-to-date. This cyclical bias to asset performance is no less visible in fixed income, with high-yielding and EM debt topping the returns of the more defensive bonds.

The accelerating reflationary trade seems to be set to continue, at least until something throws a sizeable spanner in it. The most likely candidate for this party-damper would be the tapering of asset purchases, which some Fed officials think should start as early as by this year-end. One of the messages conveyed by the bursting of the Japanese real estate bubble, and for that matter any bubble, is that financial stability does matter, which is exactly why within the Fed some officials do not see the commitment to asset purchases lasting indefinitely, at least at this very high rate.

It is impossible to forecast until when Quantitative Easing will be in full swing, or rather slowed down. But when that happens, in keeping with the 'Magic Money' CIO View according to which liquidity keeps now markets going, there will be reason for concern. For now the party-damper is not even looming large on the horizon, so market setbacks are deemed buying opportunities.

On a different note, it is going to be much more difficult for Mario Draghi to go about his new tasks as Prime Minister than for investors to successfully ride the current ebullient market trends. The newly sworn-in PM will have to put together a well-targeted spending program regaining the trust other euro area member countries no longer have in Italy, as well as convince Italians that stricter EU constraints on banking regulations and budget deficits are necessary. None of this is easy, that you put in charge either Supermario 1 or Supermario 2.

Stay safe.

MAURICE GRAVIER
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