



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

Asian stocks are in the green this morning, following the positive session in the United States, where shares reached new all-time highs on optimism about the economic recovery. The S&P 500 Index climbed back-to-back for five sessions, led by Utilities and Communications, the dollar put in small gains and the yield on the 10-year note held above 1.6%.

It turns out that Joe Biden is not only market friendly and that higher tax rates should be in the offing, meant to pay for the economic program designed to help America recover and following the latest pandemic-relief bill. Treasury secretary Janet Yellen said that the next bill will have to be partially paid for. Both the corporate tax rate and the individual rate for high earners should be increased, according to people familiar with the matter. This would be Biden's opportunity to review the tax system with the first major hike since 1993, with portions of Donald Trump's 2017 tax law which will most likely have to be repealed. Half a dozen states at least are also considering raising taxes for the wealthy to tackle the fallout from the pandemic.

China reported the first important batch of data for the year, which was out of the ordinary due to pandemic-induced base effects with yearly growth rates of above 30% for Industrial Production, Fixed Asset Investments and Retail Sales. The recovery appears uneven, as adjusting for base effects both Investments and Retail Sales proceeded actually at a slower pace since December last year versus Industrial Production which accelerated. The economy should reach the 6% growth target set for 2021, with fiscal policy removed only gradually and most likely no additional monetary support. What a difference as compared to what is happening in the Western nations where Modern Monetary Theory is gaining more traction and there seems no end to rising stimulus!

Although Europe's biggest countries suspended use of the AstraZeneca vaccine amidst a health scare, there seems to be light at the end of the tunnel for the common area. There is the "prospect of a lifting of the restrictions" and a joint document should be released Wednesday citing progress in the reduction of infections. The coordinated lifting of lockdowns would be following a tier system based on the virus situation in each country. There will also be the proposal for a digital pass, certifying vaccination or test status of the person.

Renowned investor Ray Dalio, founder of the world's largest hedge fund, said that the US over-borrowing will push investors towards Chinese bonds offering a relatively appealing yield. He advises against a traditional stock-bond mix skewed towards US assets, favouring a mix of non-debt and non-US assets. He also sees "tax changes" which could be "more shocking than expected", as governments short of money will have to raise taxes. Ray Dalio is rightly pointing to the ugly side of Modern Monetary Theory.

Stay safe.

MAURICE GRAVIER
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