



CIO OFFICE MORNING MARKET WRAP – 16th June, 2021. ALSO AVAILABLE ON ALEXA.

Stocks slipped, yields and the dollar were little changed, gold slid as investors looked ahead to the Fed meeting. Economic releases did not help either, with retail sales disappointing and producer prices causing hand-wringing about inflation. Energy stocks were in the green, but real estate and technology lead the S&P 500 lower.

With the reopening of the US economy in full swing spending rotated back to services and retail sales dropped more than expected last month. The underlying trend remains anyway strong and the level of sales has reached well above pre-pandemic levels. Household outlays are forecast to be strong in the current quarter and moderate in the second half of the year. Producer prices rose at the fastest pace since 2009 surprising investors as all of inflation readings recently have.

Once upon a time credit analysts used to track the number of corporate defaults to gauge the degree of health of the credit cycle. Why bother today? One by one, central banks are killing price discovery mechanisms with their interventions. Bond yields are too low, in spite of the recovery, credit spreads too tight, in spite of debt levels. Recessions are supposed to lead to more bankruptcies and cut the ability to borrow, in normal times. But in today's central bank-driven, no-longer-so-normal times, investors have thrown caution to the wind and chased yields knowing that central banks support the market. Defaults remain artificially low, zombie

companies will survive, a reminder that to an extent the Japanification of the western economies continues.

The privately-funded American Petroleum Institute reported the largest drop in inventories since January, pushing Brent to close in on \$75 a barrel. Demand for crude remains strong as the global economy continues on its recovery track and OPEC+ is expanding supply only gradually. The largest oil traders like Vitol and Glencore see further gains ahead, with Brent trading between \$70 and 80 a barrel and demand back at pre-COVID levels in the second half of the year. Some investment houses, in the super-bullish camp, see a new super-cycle with \$100 a barrel eventually in sight. Paradoxically, the forceful push for ESG and the consequential cap to reinvestments in new crude supply seems to be a major driver of the new super-cycle.

The major asset classes, stocks, bonds and currencies, are in a holding pattern ahead of the Fed's decision on monetary policy. According to the Bank of America's Fund Manager Survey inflation expectations should have peaked and long commodities is the most crowded trade. This would be in keeping with higher real rates, currently indeed oversold. Have we managed to back out some unexpected hawkishness coming out of tomorrow's FOMC meeting? If the above scenario holds, there would be room for a rebound in the dollar, which has recently seen speculative positioning flipping to net long for the first time since the start of the pandemic last year. And, of course, gold would continue to slip.

Stay safe.

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