



CIO OFFICE MORNING MARKET WRAP – Monday 18th January 2021. ALSO AVAILABLE ON ALEXA.

In the Asian morning session stocks are generally weaker alongside US futures, in spite of data from China pointing to a continuation of the strong recovery, with the economy back to the pre-pandemic growth rate in the fourth quarter. No sooner did investors manage to fall for the reflation trade than markets started to correct last week, with cyclicals leading the way. Since November last year this kind of trade has worked, carrying over to 2021.

For instance, within equities year-to-date, the S&P 500 has underperformed against some relatively more cyclical benchmarks in the EM space, and versus the Russel 2000, the MSCI EMU, and the Topix. Concerns about bipartisan support for Biden's stimulus plan, or lockdown measures severely affecting the European economies, could be equally invoked to justify profit taking, alongside lofty valuations. Another angle on the same story is offered by investor sentiment, of late running hot and usually a contrarian indicator. Most likely some excesses will have to be worked out in the short term, in line with our sentiment model on the US dollar that has been particularly constructive since last week.

Another gauge of the willingness of investors to continue the rotation trade will be offered by mining stocks kicking off the reporting season, with Rio Tinto and BHP Tuesday and Wednesday respectively. Miners have been amongst the best performers on both sides of the Atlantic, so much so that now it seems that any pricing gap with base metals futures has been closed; while this is far from being the case for oil stocks, if indeed Brent crude reaches this year the ambitious target set by Goldman Sachs at \$65bbl. The spectacular market rally continues to see the gap between Wall Street and Main Street widen as spectacularly.

Even as governments led by the US administration will seek astronomical pandemic relief measures, economists warn of the growing divide between haves and have-nots. To quote a professor who popularised the notion of a k-shaped recovery, “so much of what policymakers did was to enable those who were wealthiest to rebound fastest from the pandemic”. At the other end of the spectrum things are quite different. Aggregate job numbers disguise the fact that employment for the bottom quartile of American earners - making less than \$27,000 per year - is more than 20% below January 2020 levels. The record inequality in the US society could be one major factor accounting for the growing civil unrest that has recently found many ways for its disorderly expression.

President Trump, ascending to power by leveraging that dissatisfaction, will be succeeded by Joe Biden, vowing to unify the country and to be the President of all Americans. At the inauguration speech to be held Wednesday with thousands of National Guard Troops moving into Washington, many an American will be listening attentively.

Stay safe.

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