



## **CIO OFFICE MORNING MARKET WRAP – 20th June, 2021. ALSO AVAILABLE ON ALEXA.**

Global financial markets saw a sea of red last week, with fortunately limited depth. All asset classes had negative weekly returns, from gold, down -6%, to high quality bonds, only marginally negative, and including of course stocks, losing -1.9% and -1.5% in developed and emerging markets respectively. Crypto assets provided no diversification -as we highlighted in our latest Market Matters podcast- with bitcoin trading around \$35000. Finally, oil prices, by contrast, were resilient, with Brent crude oil ending the week at \$73.3.

As always when all asset classes move in the same direction, the explanation is to be found with central bank action. The key event of last week was obviously a more hawkish-than-expected outcome from the Federal Reserve's June FOMC meeting. Fed officials held policy steady but unexpectedly pulled forward the timeline of rate increases, with at least two hikes now expected by 2023. The institution also raised its inflation and growth forecasts for 2021, at respectively +3.4% and +7%. The general idea is that discussions about tapering have started, for good reasons, as the recovery is clearly on track. The labor market still requires significant support, and if the inflation pressures are real and still considered as transitory, how long is transitory is unclear. Chairman Powell was open-minded and overall reinsuring during the press conference, but at the end of the week, the St Louis Fed chief James Bullard said that the Fed could actually start hiking in 2022. This triggered additional pressure on risk

assets on Friday, and the Dow suffered its worst week since October. While the dollar strengthened across the board and gold had a brutal correction, the behavior of interest rates is worth noting: while their initial reaction to the Fed's being more hawkish was obviously to rise, the defensive characteristics of the asset class came at play in the opposite direction later - and the move reversed at the end of the week. 1.44% for the 10-year Treasury rate doesn't indeed look like panic.

Let's say it clearly: we are also not panicking. In the very short-term, we are not unhappy with the risk reduction we implemented to our tactical asset allocations 10 days ago, recalibrating our equity overweight and reducing gold in particular. Having said that, if we are about to enter the second half of the year with less outright bullishness than in H1, we remain broadly constructive. We expect volatility, and in a way we would be welcoming a more severe correction which we would consider as a potential opportunity to add to risk. Its probability is higher than in H1 for us, but nothing is certain. In a way, last week could have been a very smart communication from the Fed to prepare the markets for the next moves in monetary policy. Participants are now aware, and if the price to pay to deliver this message was the moderate consolidation of last week, it's not an expensive one. Elsewhere, core inflation is on the rise in Europe but won't reach the level seen in the US, one of the key reasons being that the base effect is not as deep. China continues to tighten its economic policy: last year's fiscal support is not renewed and credit growth is slowing. There is some irony to see capitalist orthodoxy from a communist country, but there is also undoubtedly wisdom in their will to balance between near-term growth and long-term financial equilibrium, while the West is diving deeper into an abyss of debt.

On the virus front, news are mixed and highlight regional divergences. Emerging markets are struggling: from Brazil, with total deaths topping 500,000, to India, where the current wave is abating but daily deaths are still around 3 thousand per day. The US sent 2.5 million doses of Moderna's vaccine to Taiwan as the island is seeing a spike in infections and faces a shortage of vaccines – the donation can be seen as both humanitarian and political. In the US, precisely, new cases have fallen to the lowest level in more than a year, comparable to numbers from the first lockdowns. In the middle, Delta variant cases soar in the UK, which has prompted Italy to impose a quarantine for arrivals from the kingdom. The sad truth is that of course the Delta variant will keep on spreading everywhere: nobody is safe until everybody is safe.

In the week ahead, we will monitor flash PMIs to have a probable confirmation of a robust start to June and have a look at new home sales, personal income and spending in the US.

Stay safe.

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