



CIO OFFICE MORNING MARKET WRAP – Monday June 21st, 2021. ALSO AVAILABLE ON ALEXA

Last week was negative across all asset-classes, following the modest but unexpected shift in guidance from the Federal Reserve. As we write this morning, sentiment doesn't improve in Asia where price action paints a "risk-off" picture. Stocks are down in all major countries. Japan leads the retreat, currently falling by almost -4%. Hong-Kong and Korea are down -1.2%, with the former seeing real estate developer China Evergrande touching its lowest price in 4 years on concerns about its financial health. China onshore stocks are faring better, down by half a percentage point. By contrast, defensive assets are sought after, starting with government bonds. The US 10 year Treasury yield is down a significant 7 basis points to 1.36% - this may look surprising in a context of potentially higher short term interest rates sooner than expected, but this is due to the defensive nature of bonds as well as to the anticipation of slower medium term growth looking forward. Gold is also slightly firmer at \$1775, while oil prices are steady following the failure to revive the nuclear deal with Iran.

The negotiations on the topic took place in Vienna just after the presidential elections in Iran were won by the conservative cleric Ebrahim Raisi, considered a hardliner with regards to international relations. What probably doesn't help is that the name of the new president-elect is on the list of individual sanctions issued by the US in 2019. Iran is not the only hot geopolitical spot. Pressure is mounting on China to allow a full and transparent investigation into the Covid origin. Otherwise, China would risk international isolation, which implicitly means sanctions, according to a US National Security Adviser speaking to Fox News yesterday. Renewed sanctions against Russia are also in preparation according to him, due to the situation of Alexey Navalny.

Closer to us, Saudi Arabia plans to combine two of its pension and insurance funds, GOSI and PPA, which would create a major player with over \$250bn in assets. Even closer, Dubai airport is reopening its Terminal 1 and hopes to reach 90% in autumn when the Expo begins. Our local markets were not very volatile yesterday, with Dubai closing marginally down -0.4% and Abu Dhabi unchanged.

Crypto assets confirm their correlation to overall risk appetite on markets, as we highlighted in a recent Market Matters podcast. Most of them are down today, as China continues to push back on crypto miners. Their latest move aims at limiting their energy supply. Volatility compromises institutional adoption but currently doesn't scare that much retail enthusiasts. Having said that, levels matter. A simple analysis of recent flows show that the risk of losses having to be covered is significant below 30.000 which could trigger some selling pressure, and have a negative feedback on other popular areas of retail speculation. We are closer to 35.000 as we write and another material correction may never happen. We do not advise on cryptos but watch them as a potential source of volatility, among many others. Our expectation for more turbulence is one of the key reasons why we have reduced our overweight in stocks earlier in June. We remain constructive, but less outright bullish than in H1, as upside potential is lower and as volatility could be significant. Everything else being equal, we would consider a severe correction as an opportunity to come back and add to risk.

The week ahead will be light in terms of major economic data, but speeches from central bank officials will receive close attention, especially the Fed chairman Powell Tuesday. Stress tests results on US banks will also be released by the central bank on Thursday – most of them should pass, which would allow them to be freed from the dividend limits set during the pandemic. We'll also look at consumer confidence in the Eurozone and various flash PMIs. Stay safe.

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