



CIO OFFICE MORNING MARKET WRAP – Sunday November 21, 2021. ALSO AVAILABLE ON ALEXA

The returns of last week were negative for most major asset classes. Stocks were down -1.3% in emerging markets and -0.1% in developed ones. Interest rates were volatile but overall unchanged with a minor flattening of the curve. The 10-year Treasury yield closed at 1.55%, while the 5-year ended the week at 1.22% and the 30-year at 1.91%. High yield indices were down -0.5%, Credit segment lost -0.2% and sovereign bonds were broadly flat across DM and EM. Gold closed lower by -1% and the price of Brent crude oil moved down significantly, losing -3% over the course of the week to close at \$78.5. Crude inventories were up in the US, and OPEC's monthly report left the door open to more supply looking forward.

The reasons behind the overall modestly but clearly negative mood are well known. First, the outlook is clouded by the recent rise in covid-19 cases in the West, especially in Europe, as well as by persisting tensions in the supply chain. Second, elevated

inflation erodes consumers' purchasing power and raises the probability of a faster tightening from central banks in the coming quarters. With regards to the virus, the situation is indeed not great. Despite relatively high vaccination rates in Europe, new infections are now close to surpassing previous peaks there. Lockdowns are not excluded anymore – Austria is the first to start this Monday, and is also considering making vaccinations compulsory from next February, two measures leading to significant protests. Cases are also rising in the US, with considerable variations across states – it looks like states which had suffered more in the summer delta-variant wave are now more resilient, but others are catching up. With regards to the economic backdrop however, everything was not bad in the recent data. Retail sales and industrial production were better than forecast in both the US and China, and there were some signs of life in inventories which may have started to rebuild. This, combined with lower energy prices, could support the idea that inflation may have peaked, which would of course be a good news for both growth and markets, and could generate some margin of judgement for central banks. This is way too early to be certain: market participants are now increasingly betting on an accelerated tapering of asset purchases by the Fed, and several FOMC members actually confirmed that such a discussion could be on the table of the mid-December meeting. By contrast in Turkey, the CBRT clearly took a call that inflation is transitory, if not artificial. The Central Bank cut its key policy rate again by 100 basis points to 15% which is below the current pace of price increases. This led to another sharp sell-off in the currency to an all-time low. One US dollar is now buying 11.3 lira.

In other news, Joe Biden's economic package passed the House of Representatives on Friday with a 220 versus 213 vote count. Next step is the senate where uncertainty should prevail. Staying in the White House, the name of the future chairman of the Fed should be revealed this week. Finally, for the first time in history, the most powerful man on earth has been a woman – for a few hours. Power was transferred to VP Kamala Harris on Friday when the President was under anesthesia, undergoing a routine colonoscopy.

Our positioning remains reasonably pro-cyclical, with an overweight in stocks and an underweight in bonds. We are now modestly underweight cash after having gone overweight gold earlier in November, a winning trade so far. We will have a close look at flash PMIs this week in developed markets in particular to look for some confirmation of the recent uptick in US and China. Stay safe.

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