



CIO OFFICE MORNING MARKET WRAP – Monday 22nd February 2021. ALSO AVAILABLE ON ALEXA.

The key market move of last week was a rise in interest rates, as signs converged for a steady economic recovery from Q2. We start a new week with more of the same.

There was good news on the virus front over the weekend. A draft study from Israel suggests that the vaccine is not only effective at limiting the severity of COVID-19, with an alleged 99% efficacy rate at preventing death, but that it also blocks further transmission. This would definitely confirm that the pandemic could be under control as soon as a certain proportion of the population is vaccinated. Meanwhile in UK, the government is about to unveil today a plan to gradually ease the current lockdown.

On the economic front, the stimulus package from the Biden administration will be heading for a vote in the US House this week, and it looks like it could pass without drastic cuts. Rumours are rising for a second plan in March, which would fund infrastructure and reportedly healthcare in the US.

Against such a backdrop, interest rates have many reasons to rise, even if we think that it is only temporary: with global debt levels approaching 280 trillion, nobody can afford them. As we write this morning, on Asian markets, the US 10-year Treasury

yield is close to the 1.40 mark, its highest level in about a year. Stock markets in the region are not particularly well oriented. On one hand, they should benefit from their sensitivity to the global cycle, but on the other, higher interest rates are a tailwind for elevated equity multiples. Japanese indices are the only ones to be clearly in the green, up 0.7%, as higher interest rates simply won't happen there. Other Asian stocks are more mixed. Cyclical commodities don't care about subtle risk premium considerations; copper is at a nine year high, and Crude oil is climbing towards \$63 for the Brent. The next ministerial meeting from OPEC+ in early March will be important for the trajectory of supply in the coming months. Saudi Arabia is said to have a cautious stance, while Russia is keen to increase production. Interestingly, Iran will attend next month's meeting of the advisory committee –another indication of their current diplomatic efforts to reopen access to international markets.

The coming weeks will be about finding a balance between the tailwinds of a robust economic rebound, and the headwinds of higher interest rates on valuations. Historically, this kind of battle is usually won by the positives from a strong cycle, especially as there is no risk of any monetary tightening in the short-term. Chairman Powell should confirm this in his testimony on Tuesday. When central banks are the key factor for market directions, bad news can be good for markets, but good news are not necessarily symmetrically bad. It doesn't mean that risks have disappeared: considerable IPO and M&A activity, as well as bitcoin trading at 56.000 are signs of a worryingly stretched sentiment. We stay invested as long as our year end fair values are not exceeded, but remain vigilant.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD.

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