



## **CIO OFFICE MORNING MARKET WRAP – 22nd June, 2021. ALSO AVAILABLE ON ALEXA.**

Sometimes, the necessary assumption of capital market efficiency appears quite questionable, especially when looking at short-term price action.

Last week was negative across all asset classes after the shift from the Fed. Yesterday started with a sea of red on all Asian markets as well as falling interest rates -a true risk-off configuration. But the very same Monday ended with a strong rally in US stocks, and rising interest rates – risk-on. There was simply no clear explanation for this sharp reversal. Yes, the written remarks from Fed chairman Jay Powell, released before his testimony today, confirm that he sees the spike in inflation as temporary. The opposite would have been surprising. But on the other hand, other Fed officials called for vigilance towards price increase and the need to act sooner rather than later. This was echoed by comments from investment legend Ray Dalio as well as Larry Summers speaking at a conference, mentioning “overheating” and the “big negative effect” of future tightening on markets.

Whatever the reason, interest rates climbed higher yesterday, with the 10-year Treasury yield adding 5 basis points to 1.49%. Global stocks ended up, led by the US at +1.4%, followed by Europe adding 0.7%, while Japan closed too early to benefit from the unexplained reversal, at a severe -3.3%. As you would have guessed, it's catching up this morning. The Nikkei is up 3% and all Asian stock indices are in the green as we write. Commodities are also firm at

\$1790 for gold, and \$75 for the nearest expiring future contract on the Brent crude oil. The future curves suggest strengthening demand with a \$1 premium between October and September contracts. Crypto assets are trying to recover from yesterday's bloodbath, with bitcoin, at \$33000, trying to take some distance with the dangerous \$30000 mark, and Ether still below \$2000.

Bottom line, one cannot take rational investment decisions without assuming that markets are efficient. So, let's forget the day-to-day confusion and keep our positioning steady: we are less outright bullish than in H1 but still constructive with an overweight in stocks versus bonds. Volatility is here to stay, linked to market participants adjusting to a subtle scenario: the great acceleration of the US economy justifies a pivot in monetary policy, but it should be extremely gradual and conditioned to further economic objectives being met. Staying with central banks, the ECB's Chief Lagarde said she is not worried about an inflation contagion from the US. She is certainly right, but one can regret the also limited contagion of growth. As a reminder, the US economy contracted only -3.5% last year and is expected to rebound by close to +7% this year, way above pre pandemic levels. The Euro area contracted -6.7% in 2020 and the rebound should be between +5 and +6% in 2021.

Apart from Mr Powell's testimony before the Congress tonight, we will look at the Euro-area consumer confidence, US existing home sales and the Richmond fed manufacturing index at 6PM.

Tomorrow will be richer with flash PMI numbers for several large countries.

Stay safe.

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