



CIO OFFICE MORNING MARKET WRAP – Monday November 22, 2021. ALSO AVAILABLE ON ALEXA

Last week was negative across most asset classes with a double stream of concerns: rising infections in the West cloud the economic outlook, while persistently elevated inflation questions the pace of central banks' tightening. As a result, both cyclical and defensive assets had negative weekly returns, although not dramatically. Our stance remains reasonably constructive: as inflation is a by-product of buoyant demand hitting constrained supply, we do not believe that we could have both a slowdown and sharp increases in prices. A positive scenario is also not to be excluded: a resorption of the supply-chain glut would help on both inflation and growth. As the virus situation is better in Asia than in the West, it's not impossible. With regards to central banks, while we acknowledge that the current level of asset purchases has no economic justification anymore, we keep on thinking that rate hikes are not as imminent and as unconditional as the market anticipates. This is why our positioning remains reasonably but clearly pro-cyclical, with an overweight in stocks and an underweight in bonds – as well as some gold in case the stagflation fear would intensify. We still

expect volatility ahead as the big picture also includes elevated valuations and vulnerable sentiment.

With regards to the pandemic, it is desperately clear that we are not done yet. Infections per million inhabitants have just reached a new all-time high in Germany and Austria, triggering a national lockdown in the latter which will start today. They are rising in the US and not abating in the UK. More generalized restrictions would have a material impact on growth. Again, this is not our scenario. First, hospitals are not as saturated as they were in the previous peak. Second, populations do not easily accept lockdowns anymore and governments may not have the fiscal ammunition anymore to fund them anyway. Finally, in the same way that vaccines came to the market last year, treatments are potentially the next game changer to simply live with the virus.

In the meantime, market participants are understandably concerned. Dubai and Abu Dhabi were slightly negative yesterday, and the mood is mixed in Asia as we write this morning. Stock indices are down between -0.5% and -0.3% across Japan, Korea and Hong-Kong. They are up +0.4% in China's onshore markets: through verbal guidance, the PBOC indicated a willingness to cap the appreciation of the yuan, which can be seen as a first step towards more policy easing to support the economy. Interest rates are slightly firmer but the yield curve remains materially flat: the short-end reflects anticipations for a quicker policy normalization while the long-end expresses concerns about growth. The US 10-year yield is currently trading at 1.56% while the 5-year is at 1.23%. Is it worth grabbing such a tiny term premium? We think it's not. Oil prices continue to tick lower: after the OPEC's report and the rise in crude inventories of last week, leading to a -3% drop in the price of Brent crude, Japan and the US are said to announce a joint initiative to release some of their strategic reserves. Future contracts on Brent are down -0.6% to \$78.4 and the gap is narrowing with the US WTI which trades at \$75.6. Finally, profit taking continues in the crypto sphere after last week's all-time records. Bitcoin and Ether are down -3% as we write to respectively \$57800 and \$4200.

Today we will have a look at the Euro area consumer confidence for November, to get more color on the economic impact of the current resurgence in covid. We will also get US October existing home sales. Flash PMI for the US and Eurozone will be released tomorrow, and Wednesday should be busy with the FOMC minutes and US consumer income in particular. Thursday, US markets will be closed for Thanksgiving. Stay safe.

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