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Last week was rich in potentially market moving news, especially around inflation and the Fed’s tapering agenda. The weekly return scorecard was however relatively benign and actually positive across every single major asset class. Within developed markets, both stocks and interest rates were little changed with a slight twist to the upside: the MSCI World added 0.2%, and the US 10-year Treasury yield was marginally down, closing the week at 1.62%. Stocks from emerging markets outperformed with +1.7%. There was more action in commodities: gold was the best performing asset class with a 2.1% gain, now not far from being flat year-to-date. Oil prices were down over the week, but with a 2% rebound on Friday, the price of Brent crude oil closed at $66.44.

Volatility was elsewhere, and it was huge: crypto assets experienced massive swings. They started early in the week with a Chinese crackdown on cryptocurrencies triggering a crash, followed by a rebound, and another plunge again at the end of the week for the same reason, as China’s State Council reiterated clear intentions to curtail Bitcoin mining and trading. From a peak of close to $65000 in mid April, Bitcoin traded as low as $30.000 last Wednesday, then rebounded around $42000 before going South again, around $37000 as we speak. As Bitcoin is to the crypto world what the US S&P 500 is to global stocks, virtually every volatile token took a severe hit in sympathy. A key question is of course whether this contagion could extend to other, conventional asset classes. We do not have an absolute conviction -as you know we
do not advise on crypto assets yet, to start with. However, we find reasons to be on the hopeful side on the question of contagion. The risk relies on two factors: first, the size of the crypto universe is now enormous: at its peak a month ago, their combined market cap was larger than the infamous US sub-prime mortgage market in 2007, the detonator of the great financial crisis which followed. Second reason to worry: retail participation is extremely high in the stock market, and losses in crypto assets could thus trigger forced selling in equities. One significant difference with 2007 however is the ownership structure: institutional participation in cryptos remains very low, while the systemic aspect of the US sub-prime market was obviously linked to them being sold in various packages as safe products to virtually everyone. Insurance companies and banks in particular were very exposed, which is absolutely not the case for crypto assets. Derivatives markets are also not developed. Finally, in a world of “magic money”, where savings rates are flying at historical records in most of the developed world, we don’t think that crypto owners have massively leveraged their positions. They may see their non-realized gains disappear, they may have to cancel this order for a Lamborghini, but they are probably not going bankrupt. Again, we do not advise on crypto assets: we are genuine believers in the value of blockchain and distributed trust, as well as in their numerous applications, but are currently unable to put a relevant price tag on the associated value in our fundamental approach. We’re working on it but haven’t yet found a robust enough framework to do so.

Elsewhere in the news and coming back to fundamentals, activity data was overall constructive last week, with positive surprise on flash manufacturing PMIs in Europe in particular, as well as a drop in US weekly initial jobless claims. The picture on the virus is improving in the West: cases and deaths continue to plunge in the US, and a UK study tends to demonstrate a significant efficiency of both Pfizer and AstraZeneca shots on the Indian variant. The tone is different in Asia: India is still struggling, and Singapore has extended restrictions. Global numbers to keep in mind are: 166 million total cases, 3.4 million deaths, but also 1.6 billion doses of vaccine given. In the corporate world, the last stages of the Q1 earnings release confirm a formidable season.

The week ahead will be animated by various speeches from central bank officials, followed by the release of US PCE number on 28th. The early days of June will provide the usual monthly data on leading indicators, especially PMIs, preceded by their flash estimations, and the US monthly job report on June 4th.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD
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