



CIO OFFICE MORNING MARKET WRAP – Wednesday 24th March 2021. ALSO AVAILABLE ON ALEXA.

Tuesday was a bad day for global markets, following data showing an unexpected increase in the number of new cases globally. After material declines from the late January peak, the trend has reversed, which can be attributed to the new variants being more transmissible, in a context where increasing mobility led to more contacts. Daily new cases globally are back above the 500k line, materially higher than the recent trough around 400k but still way below the peak of 800. Forget inflation fears, the recovery primarily relies on the virus being under control. The good news in the data however is that vaccines are proving effective in containing the pandemic: the trend remains favorable in the UAE and Israel, the leaders in the field, and is stable in the UK and the US where the rollout has also been effective. Brazil and Europe in general are the most affected by the rise, and renewed lockdowns in the old continent are the only tool available due to the terrible management of vaccination programs there. This will have an impact on the global economy.

Markets are not prepared to question the recovery and even remotely envisage a third wave. Oil prices tumbled with Brent crude losing as much as 6.6%, closing just above the \$60 mark, and the Brent futures contract curve slipped into contango: future prices are now higher than spot. Global stocks fell 0.8% on average, with the US being the largest negative contributor at -1.1%. Logically, defensive assets were sought after. The 10-year Treasury Yield lost 7 basis points to 1.62% and gold was steady around \$1731.

Jerome Powell made his testimony before the congress and unsurprisingly continued to play down inflation risk: there will be a temporary increase which won't be sustained. Janet Yellen was also testifying but didn't provide any breaking news, focusing on how states could implement their grants from the stimulus package and on some tax deductions schemes. Both agreed on the fact that the economy was far from normal levels, signalling no pause in the support. They also described a mixed picture on financial conditions due to elevated valuations and volatility. We fully agree on this point and would add the bullish positioning and retail speculation as additional reasons to expect turbulent markets. In the global news, the IMF is preparing a new allocation of special drawings rights equivalent to \$650 billion to help developing economies fight the pandemic. Elections in Israel provided once again no clear winner, according to exit polls. A coalition would be needed to form a government but such attempts have repeatedly failed in the recent past, and the risk of having a fifth election in 2 years is not to be excluded. Finally, on the vaccine front, AstraZeneca is facing renewed concerns about the efficacy of their shot, only a day after releasing positive data on the US trial. Hong-Kong and Macau will halt the Pfizer BioNTech vaccines due to packaging defects. On the positive side, Johnson & Johnson expects to release millions of doses, and Pfizer began human trials of a new pill to be used in the early stages of infection. With regards to economic data, new home sales dropped in the US much more than the average forecast. By contrast, industrial production was stronger than expected in Taiwan. Another relatively good news is that yesterday's auction from the US Treasury on 2-year maturities went well. The longer maturities will be important later this week.

As we write this morning, the session is broadly negative in Asia. All stock indices are in the red, between -1 and -2% for Japan, Hong-Kong and onshore China. Interest rates continue to soften, with the US 10-year just below 1.6%. Oil prices are stabilizing after their sharp drop of yesterday.

Our take on the current situation is unchanged. Volatility should never come as a surprise due to valuations and positioning creating vulnerabilities to any uncertainty. The trajectory of the pandemic and the risks from magic money are quite generous in providing reasons to worry about. However, we keep on believing in a positive exit on both fronts: vaccines roll-out will improve and unlock the recovery, and inflation stress will prove temporary. As a result, volatility could provide us with opportunities to put some cash at work. It may be too soon to move now but we won't hesitate should a severe correction happen. In the meantime, today we will watch flash PMIs for the Euro area, read the EIA Crude inventory report and listen to Mrs Lagarde's speech.

Stay safe.

MAURICE GRAVIER
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