



## **CIO OFFICE MORNING MARKET WRAP – Monday May 24<sup>th</sup>, 2021. ALSO AVAILABLE ON ALEXA**

Last week was all about record volatility in crypto assets, with so far little spill over to conventional asset classes. From bonds to stocks and including gold, all delivered slightly positive weekly returns. Our local markets were also well oriented yesterday, with both Dubai and Abu Dhabi ending in positive territory. It is worth noting that with almost +12% and +30% respectively so far in 2021, the UAE indices are among the best performing emerging markets in the world.

The week that just starts on international markets will test the contagiousness of the crypto volatility. The largest digital asset, Bitcoin, was up 8% on Saturday after a roller coaster week, but down 18% yesterday and currently trades close to 36000 as we write. Crypto trading never stops, around the clock every single day, and there's nothing like a circuit breaker there. As a result, realized volatility reaches levels which were simply never seen before. This is exacerbated by their sensitivity, not only to regulation risk, with China pushing hard, but also to tweets from Mr Musk and to technical factors, including very unconventional analysis from very unconventional

influencers and blogs. We are firm believers in the phenomenal applications from the blockchain technology, but do not advise on digital assets yet, as they are currently out of reach of our fundamental framework. We simply note that despite stellar price appreciation for a decade, their risk-adjusted return, measured by a simple Sharpe ratio, which divides return by volatility, is not significantly better than equities.

Asian markets this morning are weighing the situation: on balance, stock markets are slightly down but without any panic. Hong-Kong is the worst performing with a -0.5% drop, followed by Korea and onshore China around -0.2% and Japan is unchanged. Future contracts on Western indices are fluctuating around last week's close level. Interest rates are marginally lower and gold marginally firmer, while oil prices continue to rebound. The June future contract on the Brent crude oil is trading just above \$67, up 0.9%.

No doubt, now that the spectacular Q1 earnings season is over and in the middle of a crypto shock, momentum is fading on risk markets. We still don't exclude the possibility of more turbulence, but keep on believing that the volatility spill over should be limited and that the powerful fundamentals at play continue to depict a constructive picture for the rest of the year. Bottom-line, there are two key drivers to monitor: control over the virus, which is materially improving in the West and should hopefully regain traction in Asia, and the Fed's timeline for thinking about thinking about reducing the current support. The June FOMC meeting should provide some clues on the latter.

In the news today, the US and EU have voiced concerns over Belarus forcing a Ryanair plane to land in Minsk to arrest a blogger on board. In the UK, Boris Johnson's plan to reopen appears on track, especially as data shows that Covid vaccines are effective against the so called Indian variant. 60 million doses of vaccine have been given in the country, making it by far the regional leader in Europe. We would see the success of the plan, i.e. all restrictions being removed on June 21st, as a decisive step towards the end of the tunnel.

The week ahead will be relatively light in terms of key economic data, but the first days of June will bring an avalanche of monthly indicators. We will listen to speeches from various central bank officials, monitor the US Core PCE and second GDP estimate on 27th as well as consumer confidence in Europe on 28th. Stay safe.

**MAURICE GRAVIER**  
Chief Investment Officer  
Wealth Management  
Emirates NBD

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