



CIO OFFICE MORNING MARKET WRAP – 24th August, 2021. ALSO AVAILABLE ON ALEXA.

Risk aversion dominated last week, putting global equities and commodities under pressure and supporting defensive assets. The relentless delta variant raises concerns over a softer than expected economic activity in Q3, already perceptible in some data, especially in the most affected areas such as Japan. In addition, the US Federal Reserve indicated in their July FOMC minutes that the timeline for tapering may be advanced. Finally, China's pressure on the private sector continues and had a chilling impact on some related sectors such as luxury goods. The current week however started much better with dip buyers supporting risk markets. Global stocks added close to 1% on average on Monday across developed and emerging regions, and the price of Brent crude oil jumped by more than 5% to \$68.7, its biggest one day surge in 9 months. Both interest rates and gold were stable, with the US 10-year Treasury yield at 1.25%.

No doubt, the 4th wave of the virus is more severe, and lasts longer, than anyone had anticipated: infections remain on the rise and hopes to completely get rid of the virus in 2021 are fading away. Having said that, the pressure on healthcare systems in countries where a large proportion of the population is vaccinated is definitely much lower than at previous peaks. Vaccines are effective to that extent, and it matters. Without hospitals being overwhelmed, there is no need for drastic restrictions of mobility and social interactions, which limits the risk

of another economic shock. No doubt, the global economy lost momentum in July and August data should confirm a soft patch, but the big picture remains constructive. The full approval from the US FDA for the Pfizer/BioNTech vaccine yesterday was an important event. From an improvement in public confidence to the possibility of mandatory shots, such as in the US army or universities, it means a boost in penetration. Joe Biden didn't wait to urge companies to impose vaccine mandates, and an imminent peak in infection numbers is not to be excluded. On the monetary policy front, we are also not overly concerned before the crucial Jackson Hole address from Jerome Powell this Friday. The Fed has been brilliant at preparing markets to a reduction of support without shocking them and we do not think it will change. On one hand, the current economic uncertainty supports a very gradual approach, and on the other, the big picture remains favorable enough to keep the direction without being suspected of a policy mistake. Years of transparent guidance from the Fed has also improved trust in the institution from investors and traders.

As we write this morning, Asian markets seem to embrace this constructive view. Stocks are up in Japan, South Korea and China. In the latter, the PBOC in a statement called for more credit support for the real economy, which is a bit ambiguous as often: what is the "unreal" economy? Never mind, markets appreciate and even technology stocks are rising. Futures on western stock indices are also modestly higher, and commodities hold well after their rally of Monday. Oil prices gain 0.3%, gold is stable and Bitcoin trades close to the \$50,000 mark. Interest rates are marginally up, with the 10-year adding one basis point to 1.26%.

All eyes will focus on Jackson Hole, the small mountain resort in Wyoming which once a year becomes the very heart of the financial world – for two days. Its economic policy symposium gathers all central bankers from the world and will start Thursday. Of course the key event will be Mr Powell's speech on Friday.

Stay safe.

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