Last week was relatively positive for financial markets, led by risk assets. Global stocks cumulated little gains almost every day to end on a +1.4% return for developed markets, and +0.7% for emerging ones, including a rebound from China. Interest rates were modestly firmer, with the 10-year Treasury yield ending the week at 1.63%, after having almost touched the 1.7% mark. Most of the fixed income asset class printed slightly negative weekly returns of -0.2% on average. Gold was sought after, approaching the $1800 level for one ounce, while oil prices were broadly flat, with the Brent crude oil closing at $85.5. Crypto assets were slightly positive, with two interesting developments. The first US listed Bitcoin ETF was successfully launched after the SEC approved its future contracts-based investment process. The vehicle gathered over $1 billion of assets. The second interesting news was that Walmart started a pilot program to sell Bitcoin at dedicated kiosks within some of their outlets in the US.

With regards to top-down data, the week started with a disappointing Q3 GDP number for China at +4.9% year-on-year. September data confirmed a slowdown in industrial activity and real estate, only partially offset by relatively resilient retail sales. The probability to see some form of stimulus is consequently rising. GDP reports for the third quarter will be released for all other major economies on the coming days, and they should confirm the overall softness of the summer, with the Euro area probably being the positive exception. The global economy should have expanded by around 3-4% overall in Q3, which would mean that the world still hasn’t fully recovered to the pre pandemic economic output. Having said that, we tend to believe that Q4 should be better. Flash PMI numbers for October were not that negative, especially in the manufacturing sector, around 58 in the US, Eurozone and UK.
Virus control continues to progress, and supply bottlenecks should start to be progressively addressed. The global supply chains were not strong nor scalable enough to deal with a turbocharged recovery, but looking forward, this may open the door for a more balanced 2022 with gradually abating inflation pressures. This view seems to be shared by Jerome Powell who confirmed on Friday that the Fed should start reducing its bond-buying program, and said that consumer price index should progressively move back closer to the 2% target over time.

In the meantime, next week will see an avalanche of corporate quarterly results—about half of US companies and a third of European ones are scheduled to report. So far, early numbers are good on aggregate: in the US, 86% of companies that have reported beat EPS forecast, a proportion closer to two thirds in Europe and Japan. Guidance from management was however more mixed and differentiating, with several disappointing forward-looking views from Intel, Honeywell or Snap for example. Meanwhile in China, Evergrande said it paid a bond coupon just before the weekend. The $83 million payment triggered a market relief on real estate developers’ stocks and bonds. The road remains however long and dangerous, with other payments due on no less than 4 dollar notes this year alone for Evergrande.

Finally, some tension was palpable on geopolitical topics. The European Union is said to consider terminating the post-Brexit trade deal if the UK doesn’t fulfill the agreed commitments over Northern Ireland. In Turkey, President Erdogan said he ordered his foreign ministry to declare ambassadors from 10 nations “personae non gratae”, after a joint call to release a detained businessman. The list of potentially banned diplomats includes the US, Germany and France. This was a busy week in Turkey, where the Central Bank cut its policy rate by 200 basis points to 16%, despite elevated inflation, implementing the monetary strategy of the President. Finally, in a TV interview, President Biden reiterated the commitment from the US to defend Taiwan from any Chinese attack.

We will focus on corporate results and guidance in the week ahead, and get more Q3 GDP numbers, before analyzing October monthly data which will be released on the following week.

Stay safe.

MAURICE GRAVIER
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