



CIO OFFICE MORNING MARKET WRAP – Thursday 25th February 2021. ALSO AVAILABLE ON ALEXA.

Nobody really knows whether inflation will rise, but there is no ambiguity that the Fed will remain very accommodative for long. This message was given again by Chairman Powell in the second day of his congressional testimony, and reinforced by speeches from two other top Fed officials. Emphasis was put on the labor market, which would show a “true” unemployment rate close to 10% when adjusting for some non-recurrent factors.

The position was known, but markets enjoyed it. US stocks closed with a 1.2% gain, followed by Europe, up 0.5%, while Asia was down as markets there were closed before Western markets reversed their course. It was another day of clear pro-cyclical stance: the US 10-year Treasury yield increased 3 basis points to 1.38%, and the price of Brent crude oil rallied 2.6% to close above \$67 for the first time in a year. The cyclical hierarchy was also unambiguous with Energy up more than 3% and utilities down 1%.

On the virus front, a new variant is spreading rapidly in New York according to a press report, and South Africa could have found about 4000 reinfections. No problem: recent studies said that the Pfizer-BioNTech vaccine works so well that the end of the pandemic could be in sight, and US regulators said that the one from Johnson and Johnson's vaccine is safe and effective.

There were no major economic data but a convergence of minor positive news. Exports in Taiwan were above expectations in January, helped by technology. US new home sales also beat expectations, rising 4.3% month on month in January, and it will be interesting to see if the positive momentum will be affected by rising interest rates. Finally, German GDP growth for the last quarter of 2020 was revised up in the final report.

As we write this morning, markets in Asia are clearly well oriented and catching-up with the pro-cyclical stance of their Western peers. Asian stocks rally, adding 1.5% in Japan and in onshore China, and more than 2% in Hong-Kong and Korea. Interest rates are on the rise with the US 10-year trading just above 1.4%, its highest in a year. This logically pressures Gold which trades just below \$1800, but doesn't affect Bitcoin, rebounding back above \$50000. Crude oil prices are firm.

Today we will have a set of confidence measures in Europe, continuous speeches from central bankers, and the earning season will continue with AB InBev, AirBNB, Moderna and Telefonica to name a few.

Stay safe.

MAURICE GRAVIER
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