



CIO OFFICE MORNING MARKET WRAP – 25th August, 2021. ALSO AVAILABLE ON ALEXA.

Investors' sentiment was improving on Tuesday, supporting risk assets. Global stocks added 0.6% on average with an outperformance of emerging markets, gaining slightly more than 1%, over Europe, flat, and the US up 0.3%. Sector wise, energy, consumer discretionary and technology outperformed while defensive sectors lagged. Indeed, interest rates were unambiguously on the rise, only days before Jay Powell's address at the Jackson Hole summit. US Treasury yields on 5, 10 and 30 years maturities added respectively 3, 4 and 5 basis points. The 10 year gauge closed at 1.29%. Even more spectacular were energy markets. The price of Brent crude oil jumped again, up 3.5% to exceed \$71. This was also helped by a weaker US dollar, down 0.3% in trade weighted measure.

Rising rates with rising stocks and oil means an improvement in the cyclical outlook. There was however no single catalyst to explain this increase in risk-appetite, which can be seen as bargain hunting after last week's selloff. Growth concerns are real and justified, but there are reasons to hope that the soft patch will be temporary. Corporate earnings are extremely strong, while high frequency data doesn't show evidence of further activity deterioration. The flash PMIs released yesterday confirmed a loss of momentum rather than a plunge in doom territory, especially as bottlenecks in the supply chains still explain a material portion of the softness. US regional business surveys from the Feds of Richmond and Philadelphia were

also deteriorating but consistent with this scenario - weaker but not in free fall. By contrast, the sale of new US homes was on the rise. Finally, the fear of surging inflation has now been replaced, in market participants' versatile heart, by some trust in the potential outcome for Jackson Hole. This instability of behavioral factors, combined with elevated valuations, is the reason why we may see volatility remaining elevated in the short-term. This could be amplified by the unstable situation in Afghanistan, and by the currently worrying stream of news on the dissemination of the virus, including in the vaccinated population. This has led several companies in the financial sector, from Credit Suisse to Goldman Sachs, to reverse or delay their "back to office" plans. In other news, the US House of Representatives adopted a \$3.5bn budget resolution which bodes well for Biden's signature infrastructure bill, but the road is still long – and the actual implementation would be even longer, over multiple years.

As we write this morning, markets in Asia do not show a very clear direction. Stock indices are mostly flat or slightly negative, from India to Japan and including China where operators are digesting the newly released guidance from the SEC for Chinese companies willing to be listed in the US. Interest rates are unchanged, and future contracts on energy are down -0.5%, giving back a little fraction of their spectacular 2-day jump. Bitcoin trades around \$48000.

Investors' focus this week is all about Jackson Hole's economic policy symposium and especially the Fed chairman's speech on Friday. There is no major economic data or corporate earnings release today.

Stay safe.

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