



## CIO OFFICE MORNING MARKET WRAP – Tuesday January 26<sup>th</sup>, 2021. ALSO AVAILABLE ON ALEXA

Global financial markets struggled to find a clear direction on Monday, integrating the risk of the US fiscal relief package to be delayed. Stocks were down on average by -0.1% in developed markets, but US indices managed to close in the green, up 0.3%, led by technology. Interest rates were logically lower: the 10-year Treasury yield lost 6bp to 1.03%. In a bit of a contrarian move, the price of Brent crude oil moved up 1.0% to close just below \$56.

On our investment notes this morning, news are mostly political. The key topic is President Biden's \$1.9 trillion fiscal plan which is facing opposition from Republicans who are pushing for a smaller package. A bipartisan support is needed, and Mr Biden started negotiations which could take a few weeks to conclude, which means that the bill couldn't pass before February at best. This explains why interest rates were lower, cyclical stocks were mixed and technology, the typical "growth/long-duration" play,

was well oriented. The Senate however was almost unanimous to confirm the nomination of Janet Yellen, former Fed chairperson, as US Treasury Secretary – which is to us the most symbolic sign that modern monetary theory is now at play in the world’s largest economy. In Italy, Prime Minister Conte will resign today but it may be a way to come back to build a new coalition. On the virus front, news were mixed: infection numbers are raging in Europe, with France considering another full lockdown and Germany’s death toll now surpassing 50000, but US hospitalizations were getting better. Moderna said that its current vaccine is effective against several variants, but studies a specific booster against the South Africa mutation. Finally and as a transition to the Asian markets, China’s President Xi delivered a speech at Davos in which he warned against confrontation and the risks of a new Cold War, which can be heard by optimists as a willingness to reopen a constructive dialogue with the US. The Biden administration said that it will be patient with China and review Trump’s actions, including tariffs and blacklists. We clearly heard in President Xi a warning on the critical importance of the “One China” concept, which means: Taiwan is Chinese, don’t touch it.

In Asia precisely, the morning trading session is not great. Most of local stocks are in the red, with Korea, Hong-Kong, onshore China all down by more than 1%, despite a good resilience from tech stocks. It is only marginally better for Japan, and Australian markets are shut for a holiday. Western stock futures are fluctuating around yesterday’s closing level, Gold is sought after at 1860 and Oil is slightly down.

In the news today, Davos agenda will continue and the IMF will release their World Economic Outlook. The IMF is known to be too pessimistic in bad times and too optimistic in good ones so the update, the fourth in a year, will be interesting. The center of the stage will be held by the earnings season, which includes Microsoft and J&J in the US, for example, but also European blue chips such as LVMH and UBS.

Stay safe.

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