



CIO OFFICE MORNING MARKET WRAP – 26th August, 2021. ALSO AVAILABLE ON ALEXA.

The current week shows an improvement in sentiment, as Wednesday was the third consecutive positive day for risk assets. Global stocks rose 0.2% yesterday on average in developed markets, and 0.4% in emerging regions. At the same time, interest rates were also on the rise with the US 10-year Treasury yield increasing 5 basis points to 1.34%. The price of Brent crude oil added 1.2% to close just below \$72.

Bottom-line, after last week's sell-off, stocks are up and bonds are down, which seems to indicate anticipations for a better cyclical outlook. Interestingly, that is not what recent data suggest: after August flash PMIs and US regional business surveys, the German IFO business climate index was the latest indication yesterday that global activity is losing momentum, together with an uninspiring US durable goods report for July. Our view however is that if the soft patch is real, and understandable in a context of globally rising infections, it should hopefully be temporary. In any cases, from an investors' point of view, with interest rates so low in absolute and negative in real terms, there is little to no alternative to risk assets to generate returns. This explains why dip buyers jumped in after the turbulences of last week. This of course doesn't mean that the only direction is up: we keep on believing that volatility will remain significant, and are waiting for the key event of the week: Fed chairman Powell's address to the Jackson Hole symposium on Friday. The general expectation is that global

central bankers will together signal the beginning of the end of the current emergency support. More specifically, investors will look for hints about the timing and magnitude of tapering -the reduction in asset purchases- from the Fed. There is no clear consensus on the topic. On one hand, the economic recovery is clearly robust and policy should be normalized. On the other, its pace has slowed very recently and the delta variant keeps on spreading more rapidly than expected.

Another important source of uncertainty is of course China's regulatory environment: Beijing's crackdown on private industries has extended beyond the sole technology sector. However, in an article in the People's Daily yesterday, President Xi said China will strive to achieve economic targets while maintaining tight control over the virus. The current official number for GDP growth this year is 6%, which is clearly modest and shouldn't be difficult to reach even with a slowdown. However, with soft consumer spending and rising unemployment, especially among younger people and in rural areas, some form of targeted support from the government should not be excluded, should it be fiscal or through another cut in the reserve requirement ratio. China has ample room of manoeuvre to that extent, but it wouldn't be very consistent to support the economy with fiscal and monetary levers on one side, while pressuring the private sectors with the regulatory lever on the other.

Elsewhere in the news, the central bank of Korea hiked interest rates this morning, from 0.5% to 0.75%, becoming the first major economy to do so in Asia. While the move is modest, it is significant as it indicates a shift from supporting the economy to controlling inflation, including a debt-driven asset price rise, especially in the housing market. The BoK didn't upgrade its growth forecast for 2021, still at 4%, but it adjusted its inflation outlook to 2.1%, just above its own target.

The market reaction is not surprising: the Korean Won is rising, and stocks in Seoul are down by 0.7% on average. As we write, most of Asian stocks are in the red, with China underperforming in both onshore and Hong-Kong markets. Evergrande, the highly indebted giant real estate developer, issued a profit warning this morning and keeps on weighing on sentiment. Japanese stocks are unchanged. In India, high frequency indicators signal economic strength in the recent weeks, as well as an acceleration in bank credit, supported by waning Covid-19 cases. Future contracts on Western indices and on oil prices are slightly in the red, and so are major cryptocurrencies with Bitcoin trading just below \$48000.

Today we will look at the second estimation of the US quarterly GDP and its components, especially personal consumption. We will also get various confidence indices in Europe and the minutes of the last ECB meeting. However, there is only one key event this week and it will be on Friday at Jackson Hole, Wyoming.

Stay safe.

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