



CIO OFFICE MORNING MARKET WRAP – 27th June, 2021. ALSO AVAILABLE ON ALEXA.

Global equities gained 2.3% last week, with data signalling continued acceleration in the world economy, as well as optimism over additional fiscal stimulus. The U.S. was in the lead as markets shrugged off inflation worries and the Fed's more-aggressive "dot plot," which had triggered minor shock waves, just two weeks ago on concerns that a more active Fed would slow down growth. European equities also posted strong gains for the week, with the Fed's dovish tone echoed by the Bank of England. Asian equities finished higher but after a choppy week that saw Japanese markets with some wild swings. Good macro data with Japan's June consumer price inflation out of Tokyo flat, compared to forecasts of a decline. The slight pullback in the U.S. dollar from last week's spike and recent actions out of China to crackdown on speculation in the commodity and cryptocurrency markets, helped Asian markets. Oil's rally with Brent over \$76 a barrel led to the energy sector being the best performer for the week and retaining its sectoral leadership year to date. UAE saw a flat Dubai market whilst the Abu Dhabi Index fell a percent, last week. Real estate stocks are seeing some traction as sales data both on of plan and secondary sales remains strong as demand from end users heats up, especially in the high end space.

The 10 year US Treasury yield ticked higher to 1.52%, but this is a benign level well accepted as being in the safe zone by markets. Gold is at \$1781, holding steady after its decline the week before last, when the spectre of rising interest rates had led to a sharp fall. Whilst last week was buoyant for markets globally, with the VIX at year lows, the continuing yo-yoing of the market over the past two weeks suggests there is still lingering uncertainty over the path of interest rates, inflation and monetary policy and while equity indices should continue to add to the year to date stellar returns, there could be some bumpy stretches ahead in H2. Selectivity is key to higher returns from here on. Growth and value are more in sync, the former finding support from steady yields and the latter synchronous with cyclical sectors boosted by positive economic data.

We've been hearing plenty of Fed speak ever since the last Fed meeting with Bullard and Bostic talking of the possibility of a September taper, while Williams and Powell said there was no need to tighten monetary policy as of now, Mr. Powell said he had a level of confidence that inflation will subside, reassuring investors. The S&P 500 closed at a record high, and the Nasdaq, just short of one. The agreement between the White House and a bipartisan group of Senators on a \$1.2 trillion infrastructure package that would go toward improving the electrical grid, transit, roads and bridges and other forms of infrastructure, also buoyed sentiment and underlined strong continuing fiscal support. The infra deal is reached but significant headwinds to becoming law remain. Earlier in the week, data showed consumer spending in the U.S. in May was well above pre pandemic levels, while the number of people filing for unemployment benefits was around half of what it had been at the start of the year.

The higher yields and improving economic data boosted the global financial sector. Banks in the U.S. were further supported by expectations for increases to share buyback programs and/or dividend payments after a strong showing in the Fed's latest stress test. The large banks continue to have strong capital levels and could continue lending to households and businesses during a severe recession.

This week's economic releases: U.S. June Consumer Confidence report, the June ISM Manufacturing Index, jobless claims for the week ended June 26 and the nonfarm payroll report for June. Other market-moving data points are China's June Manufacturing and Non-Manufacturing PMIs and Japan's Q2 manufacturing Tankan survey, India—Manufacturing PMI, Eurozone—economic confidence and consumer price inflation statistics, along with German retail sales and unemployment change, U.K.—Q1 GDP.

Stay safe.

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