



## CIO OFFICE MORNING MARKET WRAP – Tuesday July 27<sup>th</sup>, 2021. ALSO AVAILABLE ON ALEXA

Monday was dispersed but overall benign on global markets. Helped by robust earnings, US equity indices printed another all-time high thanks to a +0.2% daily gain. Stocks in emerging markets were down -0.8% with a sharp drop in China: Beijing's crackdown on technology companies in only intensifying and extending to other sectors. Interest rates were mostly unchanged: the 10-year Treasury yield increased 1 basis point to 1.29%. Finally, the dollar was slightly weaker against trade-weighted counterparts, and oil prices added another 0.5%, at \$74.5 for the Brent.

Most of corporate results released yesterday were positive in absolute and relative to forecast, confirming the fact that many analysts underestimate the operational leverage: a massive jump in sales generates a margin expansion. We would highlight two of them. LVMH, the luxury powerhouse, posted a +84% year-on-year increase in same-store sales in Q2, way above already elevated expectations. Post market in the US, Tesla published a quarterly EPS exceeding \$1 billion for the first time, also better

than consensus forecast, and stated that deliveries in 2021 may exceed 50% growth, despite the supply chain issues affecting the entire auto sector.

In other news, the talks between China and US confirmed tensions around sanctions, tariffs and human rights issues, but both parties avoided a clash in order to leave open the possibility of a meeting between the two presidents potentially in October. On the virus front, infections kept on rising globally yesterday but there are glimpses of hope. Hospitalization rates are only marginally up and far from previous critical peaks, and in the UK, the number of new cases keeps on gradually decreasing for now 6 consecutive days, despite the radical relaxation of social distancing measures. Finally, the tensions are rising in Washington as Democrats and Republicans are negotiating Biden's infrastructure bill while using the debt ceiling and Senate holiday timing as a leverage for discussions. There is no doubt that the government funding will ultimately be approved -we are in the age of magic money- but the risk of a shutdown is a powerful weapon for Republicans in the negotiation.

As we write this morning, Asia stocks are lower, mostly affected by China's regulatory pressure. Sentiment has been hurt especially after yesterday's large drop in stock prices and some international investors are simply exiting. The short-term momentum is obviously negative but we have little doubt that there will be opportunities to add to the asset class later this year. As we write, indices are down in Hong-Kong and onshore Chinese markets, but up in Japan and Korea. Future contracts on US stocks are grinding higher, reacting to Tesla's earnings in particular, but at the same time, defensive assets such as gold and government bonds are sought after. Concerns have clearly shifted from inflation to growth under the influence of the Delta variant – we tend to think that it is wrong. Implied volatility, as measured by the VIX index, is trending higher, showing uncertainty and confirming that some of the excessive optimism in sentiment may have started to be corrected. Cryptocurrencies are giving back some of their gains of yesterday,

The earnings season will continue and intensify today, and notably include tech giants such as Apple, Alphabet and Microsoft, as well as Visa 3M or Reckitt Benckiser. The Fed will start their monthly committee, where they are expected to keep on discussing tapering of the current extraordinary stimulus, especially as real interest rates are currently deeply negative, and as massive bond buying from the Fed has adverse impact on the availability of collateral for the entire financial system. The press conference will be tomorrow evening. Stay safe.

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