



CIO OFFICE MORNING MARKET WRAP – Thursday 28th January 2021. ALSO AVAILABLE ON ALEXA.

Wednesday was busy and tough on risk markets. Global stocks fell 1.3% overall and much more in the late hours of Wall Street trading where key US indices closed down 2.6%. Corporate results were overall disappointing, including from some big tech names, while the Fed's reinsuring statement was expected. As we write for some time, investors' sentiment and positioning is not favorable anymore. They are unanimously optimistic, which means that markets are vulnerable to any disappointment. Behavioral factors were clear yesterday with the underperformance of virtually every segment where retail speculation is dominant, including popular names on internet chatrooms and some crypto assets.

Interest rates were only marginally lower, with the US 10-year treasury yield losing 2 basis points, just over 1%. The price of Brent crude oil moved down 0.6% to \$55.5, showing some resilience against the "risk-off" mood as US oil stockpiles fell by the biggest draw since last July. Joe Biden also called for eliminating \$40bn in subsidies to fossil energy in the US.

On the big tech earnings front, Apple numbers were great especially in sales, but their outlook was cautious. Tesla's numbers were better than expected on revenues but missed on profits with a wide margin, 20% below the consensus at the EPS level. Facebook also had good revenue numbers, but warned of significant uncertainty. In Korea, Samsung also missed estimates on profit.

The other major event of yesterday was the Federal Reserve's monthly FOMC. Chairman Powell was unambiguous, saying that "the whole focus on exit is premature". The bond-buying program is unchanged at the astonishing pace of \$120 billion a month, and it will continue until "substantial further progress". No tapering in sight. This is reassuring but market actions shows no relief: it was widely expected. On the virus front, the "substantial further progress" is unfortunately still to be seen, with additional restrictions being put in place everywhere in the West and the Middle-East. In Europe, the European Union didn't find an agreement with AstraZeneca over the supply of doses which may cause additional delays in vaccination. The good news however is that Pfizer and BioNTech said that according to their studies, their vaccine should neutralize the virus variants.

As we write this morning, it's a sea of red Asia. Stocks are down 1% in Japan, 1.6% in South Korea and more than 2% in both Hong-Kong and onshore China, with a clear underperformance of technology. To put it short, conditions are all met for turbulences in the short-term, against a backdrop combining consensual optimism with retail frenzy. Anyway, a 10% drop is perfectly possible and even probable at some point, it happens quite frequently. But as we repeat often, it is impossible to time the markets. This doesn't affect our scenario nor our positioning, which is reasonably pro-cyclical and favors emerging assets overall. The consumer confidence numbers released yesterday are a good illustration of different dynamics: the gauge plunged 7.9 points in Germany to its lowest level since last June, while it improved 4.2 points in Korea, its second highest level since the pandemic started.

Today we will keep on listening to global figures at both Davos virtual forum and Saudi Arabia's Future Investment Initiative. We will get the GDP for the fourth quarter in the US at 5.30PM Dubai time before the income and spending numbers tomorrow. The earnings season continues, with Visa, McDonald's and STMicro in particular.

Stay safe.

MAURICE GRAVIER
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