



CIO OFFICE MORNING MARKET WRAP – Sunday 28th February 2021. ALSO AVAILABLE ON ALEXA.

An intense week of equity volatility with markets yo-yoing between gains and losses. Concerns grew that the worldwide economic recovery boosted by slowing virus numbers, vaccine distribution and President Biden's fiscal package could generate inflationary pressures, creating concern that the US and other central banks could start to tighten monetary policies earlier than the 3 to 4 years currently envisaged. Yields on U.S. Treasury's, rose on expectations of a rapid economic rebound. Thursday saw the highest yields in a year 1.51% for the 10-year U.S. Treasury which ticked down to 1.41% on Friday. For the month of February, the 10-year yield rose 0.37%, the largest one-month increase since November 2016. Global equities and gold both fell 3% last week, with gold closing at \$1726. lending and mortgage rates.

However, conviction on growth and a resumption of mobility is reflected in oil up 18% for the month, with Brent closing at \$64.4/bbl. All this is happening at a time when the economic picture is visibly improving. Data released Friday showed that U.S. consumer spending increased 2.4% in January with household incomes up 10%, driven by the latest round of stimulus checks. The proposed additional fiscal aid package in the coming weeks should lead to more spending in the U.S. and more

economic growth, bolstering corporate earnings. Fed Reserve Chair Powell says higher Treasury yields reflect optimism on the growth outlook and there are no plans to tighten policy giving lingering weakness in the labour market. Some estimates peg the U.S. unemployment rate closer to 10%. We don't expect EM countries to start tightening monetary policy any time soon either and remain overweight equities with a preference for EM in both the fixed income and equity asset classes. For now better growth can offset higher yields and inflation worries.

Despite all major indices settling lower for the week, they were able to close higher for the month. In spite of last week's sell off, in February global equities gained 2.2%. An increase in interest rates sooner than previously anticipated, could potentially boost borrowing costs and weigh on economic growth with a knock-on effect on corporate. The Growth segments of the market were among the areas most impacted; Discretionary and Technology are close to flat to very slightly positive for the month while Energy +13% and Financials +9% rallied during February. Tech leaders Apple Amazon, Facebook and Tesla all fell over the week. EM equities which were at double digit gains for the year are now up only 3% year to date, with China down 9.6% on the week. GCC equities are faring better with the Abu Dhabi Index at 11.5% year to date gains. DM equities are at +1.5% for the year. On Friday, the S&P 500 fell 0.5%, down 2.4% for the week. The Nasdaq fell 4.9% on the week, after a small rebound on Friday. In Q4 earnings, 96% of S&P 500 constituents have reported an average EPS growth of 3.4% and Sales growth of 3.1%. However, the greater corrections are coming from more speculative retail favourites losing steam or overly hyped US IPO stocks that had delivered record outperformance and cryptocurrencies, down 22% from their peak. Focus remains on investing selectively across both equity and fixed income with a continued focus on quality and balance sheets rather than focus on market volatility, as that could continue.

President Biden is pushing for a quick approval in the U.S. of the \$1.9 trillion Covid-19 aid package, which passed the House of Representatives early Saturday and heads to the Senate. "It's time to act," Biden said adding that an "overwhelming" percentage of the Americans support the legislation. Treasury Secretary Janet Yellen tweeted that the stimulus bill "ensures that people make it to the other side of this pandemic and are met there by a strong, growing economy."

The vaccine rollout is accelerating and an estimated 236 million doses have been administered in 100 countries. Johnson & Johnson's single dose coronavirus vaccine was cleared for use in the U.S., making a third shot available that could fill gaps in the global immunization campaign as concern grows over an influx of virus variants.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD.

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