



## **CIO OFFICE MORNING MARKET WRAP – Wednesday July 28<sup>th</sup>, 2021. ALSO AVAILABLE ON ALEXA**

Risk aversion was in the air yesterday, it took hold of markets which closed in the red across the globe, with the US dropping sharply from all-time highs and eventually partially recovering the intraday losses. Tech stocks led equities down in spite of earnings releases of the IT mega caps Microsoft, Apple and Alphabet being due after the closing of the session. US treasuries advanced, the US dollar retreated and gold and Brent crude were little changed. The regulatory crackdown of the Chinese authorities which extended from technology companies to the education sector unnerved investors, while both the state of the global economy, which remains on a solid footing, though in slowdown mode, and the delta variant, which sees low hospitalisation rates and no lockdowns, are unlikely to have played a major role in driving the overall sentiment.

China not only is competing with the US to hold sway globally, but it is also doing that by moving from ideologically opposite positions. The gap between the two seems to be set to grow into a chasm sooner rather than later. Consider inequality and market competition. In the United States social gaps have been steadily rising in the last 30 years and more recently tech giants have come to dominate financial markets and the economy. While disparity amongst swaths of society has remained unaddressed, there has been growing talk of regulating Big Tech, though so far little has been done in practice to limit anticompetitive corporate conducts. Beijing on the other hand is showing to be keen to limit the power of, and tighten its grip on big IT companies, as digitalisation becomes a more relevant growth driver of the Chinese economy and more of them seek listings abroad. The more draconian measures were taken by the Chinese regulator in the educational sector to limit social inequality, at the cost of an outright market unfriendly offensive, a notion which is simply inconceivable today in the United States. If the MSCI China Tech 100 Index is almost 20% in the red year-to-date, big education companies have literally collapsed. According to the new rules published on July 24, corporations in the sector will have to operate on a non-profit basis only and foreign participations will not be allowed anymore. The end result is that Chinese families will no longer have to pour relevant resources in the education of their, oftentimes, only child, which would have spurred inequality, hampered birth rates and allowed foreign capital to highjack the once booming sector.

Some institutional investors are now fleeing Chinese stocks amidst growing uncertainty about the government's next move. Emerging markets have turned negative for the year with the latest measures in China likely to weigh on investor sentiment in the shorter term.

Big Tech earnings failed to impress Wall Street, with Apple, Microsoft and Alphabet topping estimates but investors focusing on sales sustainability. Apple lost more than 2% in extended trading after warning on slower sales growth and tighter supply hurting current-quarter results. As for Microsoft, concerns were related to the slowing of sales in the key Azure cloud-computing unit. Although Alphabet delivered the most upbeat earnings report and showed optimism about continued growth, the CFO cautioned about "more muted" boost to revenue from currency tailwinds in the third quarter and uncertainty on the consumer rebound. Alphabet gained more than 3% in the after-market session.

Investors are looking forward to the conclusion of the July Fed meeting today, to glean insights into the tapering process. Given the fading economic momentum, Jay Powell is expected to be mentioning the ongoing discussion about the tapering of asset purchases, though the overall message should still be that of Fed officials being in a wait-and-see mode. Dollar bulls took some chips off the table in preparation for the

possibility of more dovish tones. The US dollar retreated from a two-month high yesterday, also negatively affected by long-dated real yields reaching new record lows.

In its World Economic Outlook Update the IMF raised the outlook for the wealthy nations on stimulus measures and higher vaccination rates and dimmed that of the developing countries as they struggle with surging infections. The global growth rate was still estimated to be at 6% for 2021 and was increased to 4.9% for the following year, assuming spillover effects from the approval of Biden's infrastructure plan and progressing vaccination rates. Risks are posed by rising inflation, more aggressive coronavirus variants and reduced social and infrastructure spending plans in the US. Stay safe.

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