



CIO OFFICE MORNING MARKET WRAP – 28th October, 2021. ALSO AVAILABLE ON ALEXA.

Sentiment was negative on global markets this Wednesday, with stocks down -0.5% in developed markets and -1% in emerging ones. Interest rates were significantly lower: the US 10-year Treasury yield lost 5 basis points to close around 1.54%. While the 2-year maturity lost only 2 basis points, the 30-year had a significant 11 basis points drop, back below 2% for the first time this month, at 1.95%. This helped gold rebound closer to \$1800, while the price of Brent crude oil consolidated at \$84.5. Frankly, there is no clear single explanation behind this modestly “risk-off” day, with the flattening of the interest curve being probably its most notable component. This configuration, from a fundamental point of view, indicates growth concerns but no major data backs such a scenario – it’s probably more a combination of factors, from persisting supply-chain glut to China’s property-market troubles. In turn, a flatter yield curve, even without clear reasons, provided a reason for stocks to mark a pause in their massive rally. This could be purely behavioral, also fueled by the drop in risk appetite for crypto assets yesterday. It’s good to remember that all major stock indices from developed markets were 2 days ago at their highest level for the year, if not for the decade or forever. The US Nasdaq is actually still at a record. Bottom-line, we wouldn’t read too much into this turbulence.

Meanwhile, the earnings season continued. It was unsurprisingly good, and looking at some examples paint an interesting picture about the backdrop. American icons such as McDonald’s, Coca-Cola and Ford were among the winners, beating estimates by a wide margin and raising their perspectives, which doesn’t precisely signal a weak consumer. Ebay had a tough quarter and an even tougher forecast, which is probably a competitiveness issue rather than a macro problem – we’ll know more with Amazon

results later today. In Europe, Glaxo did well but BASF missed, the former raising its prospects over vaccinations, and the latter suffering for supply chain bottlenecks. Korea's tech champion Samsung just posted a very strong set, highlighting considerable demand for semiconductors and smartphones, as well as boosted prices for memory and system chips.

As we write, Asian markets follow the mood of the West yesterday. With the exception of Korea, helped by Samsung, all other stock markets are down, from -0.3% in China and Hong-Kong to -1% for Japan's Nikkei. There is no notable move in interest rates and gold, but oil prices are sharply down. As we write, the future contract on Brent is down -2% to \$82.7. The key reason behind is certainly the expressed willingness of Iran to come back to the negotiation table over nuclear developments. This came after a meeting between top Iran and EU diplomats, and the topic should be discussed in the G20 in Rome this weekend to test waters with the US. A come back of Iran on the global oil market would of course increase supply. Weekly crude inventories in the US also came higher than expected yesterday.

Finally, a word on central banks. Patience remains the keyword for the 3 largest for various reasons among which colossal levels of public debt are probably the less highlighted but the most important, especially for Japan and Europe. Elsewhere, policies have started to shift. After New Zealand and Norway, the Bank of Canada made a hawkish step by ending their asset purchases and opening the door to earlier than expected rate hikes. The UK budget released yesterday includes elevated inflation forecast which could lead to more action from the BoE. In Emerging Markets, Brazil's central bank lifted rates by a massive 150 basis points. We will get more clarity on the ECB, who meets today to debate the future of their monetary policy – in the short-term, the status-quo is the only option, and it's a loved one by all European institutions anyway, but in the longer-run, inflation remains a red flag for Germany for example. The Bank of Japan will certainly also keep both stimulus and rate outlook unchanged – Japan is now almost a decade into "magic money", where the central banks basically prints money to fund public debt.

We will get the first estimates for US GDP growth for Q3 at 4.30 PM Dubai time today – the median forecast of +2.6% annualized looks a bit low to us, if we had to bet. The earnings season will only intensify with superstars Apple and Amazon releasing their numbers, as well as Mastercard, Airbus, Total, Caterpillar, or Petrochina, to name only a few.

Stay safe.

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