



CIO OFFICE MORNING MARKET WRAP – Sunday November 28, 2021. ALSO AVAILABLE ON ALEXA

Discovery of a new COVID variant called “Omicron”, by scientists, with a number of cases recorded in South Africa, sent a wave of caution through global markets on Friday. The week’s trading had already been choppy on the back of rising inflation concerns with faster tapering and monetary policy tightening by Central Banks, starting to be priced in by markets, with the global economic recovery deemed to be strong enough to withstand rate hikes. As countries imposed restrictions on travel from South Africa and a few other African nations, concerns around the economic impact of the new lockdowns rose. Friday saw safe haven assets rally i.e. US Treasuries with the 10year yield falling to 1.47% though gold was little changed and the Vix Index spike. Federal-funds futures, a proxy for market expectations of interest-rate changes, shifted downward Friday, with the market now anticipating that the Fed will keep interest rates low for longer.

Global stocks fell 2.2% on Friday, a broad based geographic sell off, with the MSCI Asia Pacific Index -1.7% and a bigger sell off in regions where more lockdowns were being imposed with the European Stoxx 600 -3.7% and the U.S. S&P 500 -2.3%, it was a shortened day of trading in the U.S. UAE stocks were not affected as the markets are closed on Friday. The selling followed a familiar Covid-era pattern and stay at home winners such as video conferencing companies Zoom, streaming and gaming companies and vaccine-makers Moderna and Pfizer rallied while reopening sectors i.e. airlines, leisure and online booking sites fell. All global sectors were in the red with energy the worst off and healthcare the least affected. The market drop was a reminder that Covid is still a powerful force for markets, and likely to drive sharper market action than inflation in the short term. Oil fell on reduced mobility concerns with Brent trading at \$72.7, down 11.5%. This oil price fall comes just after the U.S. government, who had been concerned about high petrol costs and rising inflation had made a push to the OPEC for increased production and announced a release of 50 mn barrels of crude from its Strategic Petroleum Reserve over the coming months— in line with contributions from five other countries.

The WHO and the European Centre for Disease prevention and Control said the new strain is a “variant of concern”. Investors are worried about increasing lockdowns and uncertainty over how effective the vaccines will be, though mRNA vaccine makers such as Moderna are already conducting clinical trials of 2 multivalent booster candidates, and BioN Tech, Astrazeneca and J&J are testing the efficacy of their vaccines against the new variant. It is premature to consider Friday’s slide a change in trends. The new variant is concerning, but it will create prolonged market jitters only if it evades the protection of vaccines and therapies. Selloffs prompted by news of prior variants have tended to be short-lived. Also, very little data is currently available on Omicron’s transmissibility. The economic fallout of the new variant should be contained as the world is better equipped with higher immunity, booster shots and antiviral drugs.

Most equity markets barring China and Latin America have had a very good year with many indices at record highs, with the higher valuations starting to be worrying, post very strong Q3 earnings and strong inflows. Global stocks are up 15.5% year to date, the S&P 500 +24% and the GCC +35%. This has made them susceptible for a 5 to 10% move down, seen usually once or twice a year, a norm in markets but not seen this past year. Last week we spoke of the three headwinds to markets- rising COVID infections, inflation and monetary policy tightening. Inflation has largely been demand driven and also a result of supply chain constraints, which had recently begun abating. We reiterate that it is too soon to predict the impact of the new variant and

remain constructive on market returns with strong demand, government fiscal support and a still benign rate environment in place but expect continued volatility into yearend around these headwinds. Many positives still in the equation – ample liquidity with record savings. Black Friday online sales expected total is at over \$ 9 bn in the US and many instore shoppers and UK retail numbers higher than 2019 are indicative of a well recovered global economy. In emerging markets the India economic recovery has been rapid with strong consumer demand reflected in the +20% gains in equities, though China performance is lagging as it focuses on reducing dependance on monopolistic payment systems and data security and China listed firms in the U.S. such as Didi which have large data bases have been told to delist. Stay safe.

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