



CIO OFFICE MORNING MARKET WRAP – Monday 29th March 2021. ALSO AVAILABLE ON ALEXA.

Asian stocks are keeping steady this morning, though US equity futures are dipping as investors weigh possible knock-on effects from a wave of unprecedentedly large block trades.

Traders will be starting the week wondering whether they should brace themselves for some big volatility at the US opening, following a \$20bn of block trades Friday which rattled investors. It seems that a primary family office, Archegos Capital Management, controlled by a former Julian Robertson's protege and Tiger Management analyst, initiated the sales of stocks ranging from Chinese tech giants to US media companies. Banks like Goldman Sachs and Morgan Stanley forced the selling of shares as positions turned against Archegos and there are concerns more sales could hit the market. Nomura's stock is tumbling the most in more than 9 years as it warned of a "significant" loss, which could run as high as \$2bn, from transactions with an undisclosed US client. It is not yet clear whether this is related to Archegos' margin calls, though some people familiar with the matter confirmed.

In these days top-notch investment professionals are putting in their best efforts to explain why markets are not in a bubble. It is obvious that valuations are astronomical in absolute terms, yet nobody seems to care in the end, so 'experts' scramble to find a reason. By torturing the data enough, a rationale can always be found. Today we are torturing the price-to-earnings ratio. The starting point is that banks and governments have provided so much support that

financial assets have melted up. Indeed, there is a relationship between financial conditions and valuations, so the looser the former, the higher the latter. Hence, Robert Shiller, the American economist and academic who devised the Cyclically Adjusted PE, or CAPE, a more reliable equity valuations measure than an ordinary price-to-earnings ratio, should be bearish, since his metric is close to all-time highs and indicating screaming expensive conditions. Yet, it seems he is not so sure. In one further twist of torturing, he said that it is better to take into account bond yields to gauge equities, so he recently devised the CAPE excess yield, subtracting the long-dated real yield from his CAPE. Now, as per this excess yield measure it turns out that in relative terms equities are not that pricey!

The idea of vaccine passports is gaining traction, especially amongst the nations most dependent on tourism influx hoping that the unproven concept helps restore normal travelling conditions. People who are vaccinated, have tested negative or just recovered from the virus would be considered to have a sort of low-risk status. Yet, this is easier said than done. A common set of standards would be required, and that would imply a Group of Seven or Group of 20 agreement. Also, it is not clear which vaccines should be considered, since the Russian and Chinese ones for instance have not yet been cleared in many parts of the world. If the authorities are of two minds about the vaccines, can they be expected to settle quickly on the rest? After backtracking on a harsh lockdown planned for Easter time, Angela Merkel unexpectedly said that she could assert federal control by law to contain the Covid-19 pandemic. This would set the stage for a clash with local governments, wresting authority on health matters from them.

Stay safe.

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