



CIO OFFICE MORNING MARKET WRAP – 29th September, 2021. ALSO AVAILABLE ON ALEXA.

The rise in Treasury yields and analogous bond sell-off that began last week on the prospect of higher interest rates reverberated into the \$ 51 trillion US stock market, more so technology stocks. Testifying to Congress, yesterday Secretary Yellen warned about the potential risks if lawmakers don't reach an agreement on lifting the debt ceiling, and how lower taxes had led to increased buybacks from US corporates and not increased investment, implying implicitly that an increase in taxes is under consideration. Jay Powell, the Fed Reserve chair, said that supply-side constraints that have kept headline US inflation above 5% were "larger and longer lasting than anticipated". He also stated "but they will abate, and as they do, inflation is expected to drop back toward our longer-run 2% goal." Rising Inflation is supported by Brent oil prices rising above \$80 a barrel and coal, carbon and European gas prices at record highs in signs that the world is facing a demand supply imbalance on the energy front, as economies reopen. Constraints in mobility could weigh on economic growth, and derail consumer activity with latest data showing European consumer activity is already at pre pandemic levels as per mobility data.

The S&P 500 Index fell 2.0% and the Nasdaq 2.8% yesterday. European markets closed down, also seeing a rise in bond yields, while markets in Asia were mixed as China and Hong Kong rebounded. The U.K. FTSE was down 0.5%, France's CAC-40 -2.2%, Germany's DAX -2.1%. Political uncertainty in Germany continued following elections over the weekend with no single party gaining a majority, with coalition negotiations on the table. The UAE markets had a positive

day with banks leading returns. KSA energy firm ACWA sets the IPO price at the top of the range on tremendous demand. This morning Asian markets have Japan trading down -2.5% and the Hang Seng -0.5%. Japan's LDP holds its leadership election today to decide who will replace Yoshihide Suga as Japan's prime minister. The U.S. dollar is higher, with gold lower, currently \$1740. The yield on the U.S. 10-year Treasury is at 1.52%.

September and October have historically been volatile months for markets and this year follows the pattern with the September FOMC meeting in no way leading to a taper tantrum but not unexpectedly causing some market reaction with rising global bond yields and other factors contributing to the volatility i.e. real estate debt concerns from China, the continued stalemate on raising the debt ceiling, the Delta variant, and supply chain challenges. Are we going to see a 5 or 10% drop in DM equity performance? Particularly the U.S. – if yes, it's an opportunity to add to a market that has not seen a 5% drop since October last year. And where fundamentals and earnings growth along with a demand rebound remain supportive of further upside. We are already 4% below the early September peak of 4536 for the S&P 500 and 5% below for the Nasdaq Index.

In company news: Tiktok crosses a billion users. Ford and South Korea's SK Innovation will invest \$11.4 billion to build four factories in the U.S. to boost the production of electric vehicles. In the latest Evergrande news, the developer is selling a stake in its regional bank for about \$1.5 billion as it offloads assets to address its debt crisis and is facing another bond interest payment.

The U.S. economic calendar had Consumer Confidence at the lowest since February, Richmond manufacturing output dropped into contraction territory, the trade deficit widened more than expected, wholesale inventories rose more than projected, and home prices were higher. Covid-19 infections rose to a record in Singapore, whilst in Japan, authorities are lifting a state of emergency at the end of the month as cases drop.

Stay safe.

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