



CIO OFFICE MORNING MARKET WRAP – May 30th, 2021. ALSO AVAILABLE ON ALEXA.

Global equities continue to gain, up 1.4% last week, with China, India and the UAE contributing to the stronger +2.4% Emerging Market performance. Asia is showing promising signs of a sustainable bounce. Developed markets, were up 1.3% for the week with the US and European equity indices at close to record levels. The S&P 500 is headed for a 4th consecutive month of gains as is the Dow which celebrates its 125th year as a barometer of US stock sentiment. The rotation in the Dow's composition reflects industrial progression in the US with a higher weight to industrials, compared to the S&P 500. Gold ended the week at \$1900 as yields remain stable, with the 10-year US Treasury at 1.59% and the 2-year at 0.14%. Brent futures were at \$68.7/ barrel, with an up week for oil overall. The month of May looks likely to end well for most global markets after seeing intense volatility in equity, commodity, sovereign yields and cryptocurrency markets.

Weekly coronavirus cases in the U.S. have dropped by 50% since the end of April, now at the lowest level in almost a year. Nearly 2 million people went through airport screenings on Friday ahead of the Memorial Day weekend, the highest since the pandemic's start. New cases in India fell Saturday to their lowest point in more than six weeks. The US restaurant and other mobility data on opening is providing fresh stimulus to demand and Europe is catching up quickly. Asia is still lagging on the opening with Japan introducing further emergency

measures with the Olympics less than 2 months away. The UK is all set for further opening, in spite of seeing an increase in cases of the Indian variant.

Inflation continues to be the major basis for the traditional asset class market volatility with high April 'PCE' personal core expenditure numbers in the US, though off a low base. The PCE index, which strips out volatile food and energy costs, rose 3.1% in April year/ year. Month/ month the core PCE index jumped 0.7%. This would bring the index well above the Fed's 2% target. A surge in demand after Covid-19 restrictions were lifted, coupled with supply chain strains, likely led to a rise in prices last month. Central banks are expected to keep monetary policy unchanged, except for the start of tapering talks by the Fed which will probably look though a high CPI print for May with the assumption that inflation is peaking in line with growth. The Fed meeting on 16th June would probably be in continuation of previous Fed rhetoric on inflation being transitory. Pres Biden released the full budget plan for the US 2022 fiscal year, with more than \$6tn in new spending boosting funding on healthcare, infrastructure and education, with a focus on low and middle-class households. The plans envisage the US debt ratio rising to 117% of GDP over the coming decade, with inflation as measured by the consumer price index remaining at just above 2%. US growth is estimated by the White House at 5.2% in 2021, a more conservative view compared to IMF and Fed projections. Continued above trend growth in the second half of 2021 in addition to central banks who are unlikely to change monetary policy in a hurry, should help sustain equity gains into year end.

On market movement: Good results from Salesforce, Costco added to positive trading sentiment. However, the close to 50% fall in Bitcoin and Ethereum from their peak as well as a recurrence of high-volume trading in momentum stocks such as GameStop and AMC continue to lead to concerns on liquidity for leveraged retail investors. Environmental concerns around global warming have come to the forefront and Western oil producers Shell, Exxon and Chevron companies are under pressure from government and activist investors to cut carbon emissions.

Stay safe.

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