



CIO OFFICE MORNING MARKET WRAP – Sunday 31st January 2021. ALSO AVAILABLE ON ALEXA.

A volatile week for global equities which ended up 3.5% lower, ending January down by half a percent. Emerging market equities lost 4.5% on the week led by Asia, however still positive for the month retaining a 3% gain. Developed Market equities were down 3.4% for the week and are in negative territory for the month by a percent. Higher volatility with the Vix Index touching 38. US equities lost 3% on the week in spite of strong results from US companies. Global equities lost year to date gains in spite of a demonstrably strong vaccine roll out with 91 million doses of vaccines administered globally. The volatility seen in equity markets over the last week was unsettling, however we would focus on the metrics underlying market dynamics and ignore the noise. We retain a positive view on the global economic and corporate profit recovery.

Demand is returning and US households have \$2 trillion in excess savings over the last year and the surge in US consumer activity should spill over to Asian capital expenditure. On the sector level Energy, financials and materials fell last week, reversing the cyclical rally. Treasuries were slightly stronger, the U.S. 10 year yield ended at 1.07%. Brent crude has retained its \$55 level not affected by the re-emergence of new global cross country travel restrictions. Gold ended the week close to where it began at \$1852. UAE markets fared better than global markets for the week and month and the Dubai Index is still up 8% and the Abu Dhabi Index with gains of almost 12%, this year. UAE reforms on the capital markets (a market for bonds in Dirhams) and encouraging talent with citizenship are seen as further positives. KSA sovereign issuance was well received with strong demand.

Centre stage for US markets was the clash between retail investors, swayed by social media posts and online message boards such as Reddit, targeting stocks shorted by hedge funds. GameStop, has risen meteorically gaining +800% in the last 2 weeks with retail buying squeezing out the short sellers. Value at Risk and risk models used by hedge funds were trading several standard deviations away from their normal. Other stocks which rose on short seller squeeze included Blackberry, AMC Entertainment and a spill over starting to Asian markets. Is this a change in investment leadership away from institutional and large asset managers which sway markets with their large sizes? The power of retail cannot be ignored with social media influencers and industry captains such as Elon Musk's tweets adding to retail frenzy. However, to avoid being caught at the wrong end of a trade, the time tested and fundamental approach looking at a company business model and valuation/ growth metrics will be more rewarding, produce consistent gains and be less risky.

Whilst 230 vaccine candidates were and are still being evaluated globally 7 are now approved and in use. The latest is Johnson and Johnson vaccine, whose efficacy while lower is easier to administer and adds to growing vaccines being rolled out. Estimates from a Financial Times report indicate 50% of Israel, 32% of UAE, 13% of the UK and 8% of the US population has been vaccinated to date and circa 3-4% for the major European countries. The UK and the US are currently running at vaccination rates which leave them on track to reach 50% of their populations vaccinated (first dose) by April and May respectively. Early vaccine success can be attributed to two key factors: supply and distribution. Friday's J&J results were slightly less positive at the headline level than expected (72% effective in the US, 66% overall) but showed complete protection against hospitalization and death. The real race is not between nations to vaccinate their populations but to vaccinate enough of the global population to materially reduce the incidence of the virus, thus controlling the chance to mutate.

Global companies are estimated to have lost 15% in profits in 2020 yet global equities gained 18% as investors looked through to 2021 for a profit rebound. This year the expected gain in corporate profits of 20 to 30 % globally looks possible with encouraging Q4 2020 results from corporates. Tech companies posted strong revenue and earnings growth with Apple crossing \$ 100 bn in revenue for the quarter and Facebook seeing a pick-up in online advertising. Microsoft saw an increase in cloud services revenue. Semiconductor companies globally have demonstrated strong revenue growth indicative of a strong demand cycle. Encouraging guidance from the industrials as Caterpillar sees stronger first-quarter sales and Honeywell predicted a 2021 profit rebound though it trailed analysts' expectations. European results support a pick-up in demand with luxury company LVMH posting a good quarter and UBS wealth management business growing significantly. Big tech adds to the earnings parade, with Alphabet, Alibaba and Amazon reporting on Tuesday along with pharma companies Pfizer and Amgen. Merck, Bristol-Myers and Roche report on Thursday.

A focus on central banks as the RBA, BOE and RBI all meet next week and all are expected to not change policy. Australia goes first, and is expected to leave its cash rate unchanged through the end of next year. In the U.K., the focus Thursday will be on the central bank's review of whether negative rates might work, something Governor Andrew Bailey may discuss. Indian policy makers meet on Friday.

Stay safe.

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