



CIO OFFICE MORNING MARKET WRAP

9 October 2024

Global stock markets were divergent on Tuesday. The US, India and GCC gained +1%, while Europe, Japan and the UK fell between -0.6% and -1.6%. With regards to China, mainland markets reopened after the golden week to print a +5% gain for the CSI300 but their Hong-Kong peers had their worst day in 15 years, tumbling -9%. US Treasuries were little changed as yields shed a few basis points, between -4 for the 2-year to 3.96% and -1 for the 10-year to 4.01%. The dollar was stable, gold fell -0.8% to \$2,615 and the Brent dropped almost -5% to \$77.2.

There was no major economic release yesterday. Germany's industrial production rebounded in August due to the automotive sector, marking a reversal of July's terrible number but not a real trend inflexion at this stage. In the US, the September NFIB small business survey was released and showed a material spike of the uncertainty index, and no euphoria in hiring plans. Two Fed officials made speeches yesterday, and both avoided to commit too much: rate cuts should be data driven, and the approach is balanced between containing inflation and supporting employment. In other news this morning, the US Department of Justice said it's considering breaking-up Google into several parts as a potential recommendation in the current monopoly case. Alphabet may also be ordered to be more transparent and open about the underlying data it uses. This is not a decision yet but a communication to the federal judge in charge. The oldest of us may remember a similar situation two decades ago about Microsoft, which didn't lead to a break-up.

Asian markets this morning are all about China's stock markets: the onshore CSI300 is down -5% as we write while Hong-Kong does not rebound, trading -2% lower. Fast money is rushing to secure gains from the last ten days, while global institutions are not yet convinced by the stimulus, as no details have been communicated on the fiscal side of it. It was indeed a bit surprising to see a press conference from the National Development and Reform Commission being scheduled yesterday, just after the long holiday, which unsurprisingly didn't bring a lot of actual content. Stocks are up +0.6% in Japan with the yen slightly weaker at 148.3 for a dollar, while Korea is -0.6% lower and India just opens slightly higher. There is no notable move in US Treasury yields, commodities and currencies.

We held our monthly tactical asset allocation committee yesterday. We didn't change our overall positioning. Bottom-line, we see our top-down scenario unfolding, with a soft-landing and slow but so far unchallenged disinflation. This is a positive, but we find limited upside potential in most asset classes on a short-term horizon, which combines with many potential sources of volatility. Our tactical active positioning is thus slightly defensive. We overweight cash, gold, government bonds with reasonable duration, while being neutral on credit including corporate and emerging markets. We underweight equities, hedge funds, and listed real estate. This is not radical: our beta is around 0.92 compared to our strategic allocations, and our equity allocation in a moderate profile is at 39%. Having said that, our equity strategy team has decided to take advantage of the current turbulences in China to overweight the country within our emerging market allocation. We tactically take profits on our long-held and highly successful overweight on India, down to neutral, to add to China from neutral to overweight. This will be implemented at market close today.

The central bank of India holds their policy meeting today and is expected to keep main rates unchanged. We will listen to various speeches from Fed and ECB officials, and then look at the September FOMC minutes at 10PM today. We do not expect breaking news from it, but a better understanding of the nuances of the decision makers to gauge whether they are on an inflexible easing path or less unanimous and more data dependent. Tomorrow will provide the US CPI inflation report, and Friday will be about quarterly results from JP Morgan.

Have a great week.

Chief Investment Office
Wealth Management,
Emirates NBD.

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