MARKET RECAP
WEEKLY

November 29, 2021

MARKET REVIEW

NOVEMBER PMI POINT TO RISING INPUT COST INFLATION AND STILL SOLID DEMAND

- Global demand remains strong amid widespread strength in new orders.
- Inflationary pressures remain high.
- Delivery times are improving, which, while still higher than pre-pandemic levels, have started to show an improvement in the US, where supplier delivery delays have fallen to their lowest level in six months.

According to Flash PMIs for November, **the macroeconomic environment in the major developed economies remained favourable**. Growth remained buoyant, albeit from labour shortages and material delivery delays. There was also widespread improvement in Japan, where the composite index reached its highest level since 2018, supported by both the manufacturing and services components, which returned to growth since pandemic restrictions were eased.

In the Eurozone, after falling in October to the lowest level in six months, **the flash composite PMI rose unexpectedly** pointing to an acceleration in Eurozone activity growth, although the average reading for the fourth quarter remains lower than the third quarter, held back by bottlenecks in supply chains.

In November, in manufacturing, growth was held back mainly by the third consecutive monthly fall in output in the automotive sector. In the tertiary sector, the weakest performance was in tourism and recreation, where growth fell to its lowest level since May, mainly due to a worsening infection rate.

Both sectors saw growth improve on the back of slightly stronger inflows of new business, yet in both cases rates of growth of demand remained well below that seen during the summer months.

Chart 1: US PMI Index

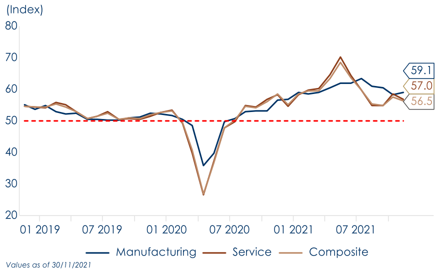
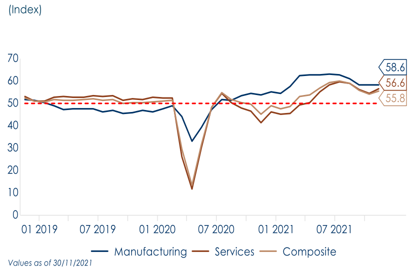


Chart 2: composite PMI index



The upturn was accompanied by a further marked increase in inflationary pressures during the month, as firms' costs and average selling prices charged for goods and services both rose at record rates. In November, for the second month in a row, there was a historic increase in purchase prices supported by companies in both the manufacturing and service sectors. Similarly, selling price inflation accelerated in both manufacturing and services, marking the fastest increase in almost two decades of comparable data collection, with companies seeking to pass on higher costs to customers, particularly in Germany.

In the US, **the November PMI indices indicate that the US economy continues to grow**, driven by buoyant demand and companies' efforts to overcome supply constraints.

WEEKLY RECAP

EQUITY MARKETS

Stock markets were "on sale" this week and even more penalised on Friday due to a new covid variant (B.1.1.529) coming from South Africa (Johannesburg and Pretoria) and also spotted in Hong Kong. The risk highlighted by scientists is its high number of mutations, its high transmissibility and its potential ability to evade vaccination effects and immune response. This week news flow will be strictly followed.

The market is waiting for official answers from the extraordinary meeting of the WHO to know the degree of severity... but in the meantime it is in "panic mode": EuroStoxx Volatility Idx up 40% on Friday morning. While travel restrictions are being introduced in Israel and the UK, the Travel & Leisure sector was the hardest hit by the European sell-off this "Black Friday" -8.30%, followed by -7% in Technology and -5% in Banks, Industrials and Auto (cyclical). More resilient (defensive) were Utilities, Telecom (although the sector was positively impacted by Telecom Italia's +40% post KKR bid on the European market).

Overall, EuroStoxx50 was down 5% with almost all its constituents in the red. Value outperformed growth for the week. In Asia, equity markets had already predicted investors' mood during the night: Nikkei -2.53% and Hang Seng -2.67%, with China closing some areas of Shanghai and limiting transport.

In the U.S., S&P500 futures were "only" down -1.65% (compared to -3% in Europe), with Comp&Elect trading at -12% and Steel at +6%. Nasdaq at -1%. This week we expect the periodic rebalancing of various indices and benchmarks on the market which could cause further volatility as inflows and outflows on individual stocks when switched. **Ultimately, the market is wondering whether what we are now seeing is the start of a sell-off** (after strong performances and a perfect alignment with tapering and inflation) **or yet another autumn "Black Friday" buying opportunity.**

EQUITY MARKETS	LEVEL		Δ WEEK
MSCI World AC	3 131,98	▼	-2,2%
S&P 500	4 594,62	▼	-1,9%
NASDAQ Composite	15 491,66	▼	-2,3%
SX5E	4 089,58	▼	-5,7%
DAX	15 257,04	▼	-5,3%
CAC 40	6 739,73	▼	-5,1%
FTSEMIB	25 852,99	▼	-5,6%
IBEX 35	8 402,70	▼	-4,7%
FTSE 100	7 044,03	▼	-2,8%
MSCI Emerging	1 223,13	▼	-3,0%
CSI 300	4 851,42	▼	-1,1%

VOLATILITY	LEVEL		Δ WEEK
VIX (S&P 500)	28,62%	▲	49,3%
V2X (SX5E)	32,31%	▲	71,1%

Source : Bloomberg, as of 2021.11.29

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GOVERNMENT AND CORPORATE BOND MARKETS

Government Bond markets were also affected by the new risk aversion wave arising from fears new Covid variant that could make vaccines less effective. The ten-year US government bond slipped 1.53, driven mainly by falling break-even inflation and rising term premiums.
The week had been full of news relevant to future monetary policy and term structure developments. The big rates event this week was the nomination of Fed Chair Powell, for a second term as Fed Chairman. This decision ensure continuity in the FED management and avoid political risks in the Senate confirmation process.

The Powell re-nomination should allow for discussion of an earlier Fed taper. The price action after the news was violent, with the 10y Treasury returning to the 1.7% area after trading almost 30bps lower on early rumors of a change at the top of the Fed. In the US, the minutes paved the way for the announcement of an increase in the pace of tapering in December At the meeting, the pace of tapering was set at €15bn per month, but the debate focused on the risks of high inflation for longer than expected and the appropriate actions to be taken should these risks materialize.

The week on the credit market, as well as for the main risky assets, was characterized by initial weakness and marginally widening spreads, with **the markets' attention focused on positive macro data and the numerous central banker statements**, which continue to signal a possible acceleration on expansionary policies withdrawal.

In the last week session the risk off then had a further acute phase following news of the spread of a new viral variant that could further worsen the situation.
Moreover, market movements are amplified by reduced liquidity, which is typical in holidays (in the US) and the approach of the end of the year, when the willingness to add risks is reduced.

GOV'T BONDS	LEVEL		Δ WEEK
US 10-year Yield	1,47%	▼	-15,0 bp
GER 10-year Yield	-0,34%	▼	-3,5 bp
FRA 10-year Yield	0,03%	▼	-1,7 bp
ITA 10-year Yield	0,97%	▲	1,8 bp

CORP BONDS	LEVEL YTW		Δ WEEK
USD Invest. Grade	2,31%	▲	0,52%
EUR Invest. Grade	0,51%	▼	-0,48%
USD High Yield	4,86%	▼	-1,08%
EUR High Yield	3,72%	▼	-0,87%
Emerging Local ccy	3,85%	▼	-0,48%
Emerging Hard ccy	4,16%	▼	-0,67%

BOND SPREADS	LEVEL		Δ WEEK
Itraxx Main	57,76	▲	7,4 bp
Itraxx Xover	289,582	▲	35,3 bp
Itraxx Sub Fin.	131,26	▲	17,6 bp
CDX North Am. IG	57,454	▲	4,8 bp
CDX North Am. HY	327,07	▲	20,9 bp

Source : Bloomberg, as of 2021.11.29

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COMMODITIES

Oil prices drop due to a combination of several factors.

- First, **the dollar's strength is increasingly seen as a barrier to improvement in the energy sector** (the dollar is the currency in which all commodity financial derivatives are denominated).
- Secondly, **risk aversion increased on the back of the news of the new variant identified in South Africa**, while the real impact of the U.S.-led coordinated release of stocks from strategic reserves seems uncertain.

EXCHANGE RATES

The appreciation trend for the USD continued during the past week. Several FED governors, including some well-known doves, expressed the idea that **the tapering pace could be increased** at the next meeting in mid-December. This possibility caused an increase in real rates in US that supported the currency.

The strength of the US dollar was also evident against the New Zealand Dollar, even if the Central Bank of that country hiked rates during the week.

All the commodity currencies struggled during the week: Swedish Krona, Australian Dollar and Norwegian Krona registered losses ranging from -1.3% to -1.9%. The Euro, Yen and Swiss Franc managed to close the week down by just -0.4%: they partially recovered the early loss on the risk off move that occurred at the end of the week because of the newly identified coronavirus variant spreading in South Africa.

This news caught the market off guard, during the thanksgiving holiday in US, therefore with poor liquidity conditions that tend to exacerbate any movement. All emerging market currencies, already under pressure for the rise in US real rates, paid the toll of this increase in risk aversion.

COMMODITIES	LEVEL		Δ WEEK
Gold	1 803	▼	-0,1%
Silver	23,16	▼	-4,2%
WTI	68,15	▼	-11,2%
Brent	72,72	▼	-8,8%
Copper	428,35	▼	-2,6%
Iron Ore	94,44	▲	1,1%
Baltic Dry Index	15,08	▼	-10,8%

Source : Bloomberg, as of 2021.11.09

EXCHANGE RATES	LEVEL		Δ WEEK
Dollar Index	96,09	▼	-0,5%
EUR/USD	1,1317	▲	0,7%
GBP/USD	1,3337	▼	-0,4%
EUR/GBP	0,8487	▲	1,2%
EUR/CHF	1,0440	▼	-0,4%
USD/JPY	113,38	▼	-1,3%
Bitcoin/USD	54 020	▼	-4,0%

Source : Bloomberg, as of 2021.11.29

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