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## SHORT-TERM BOND YIELDS RISE AMID HIGHER INFLATION

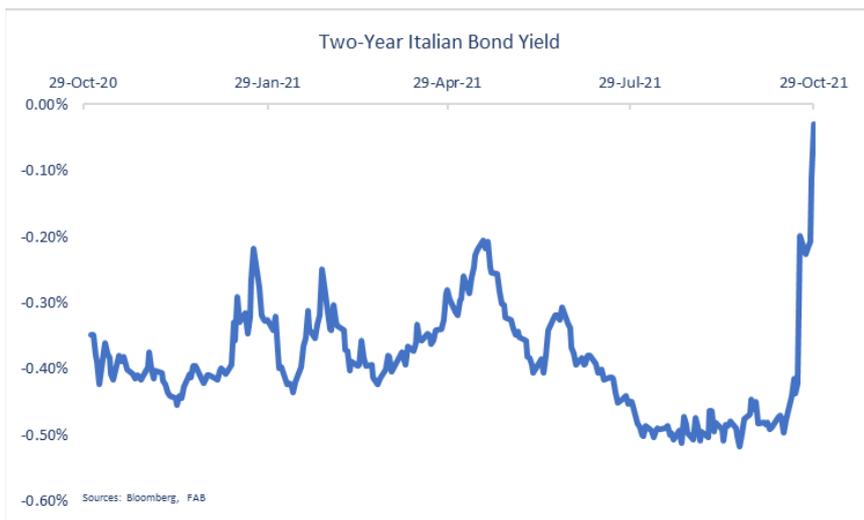
October 31<sup>st</sup> 2021

- European and Australian two-year notes saw big yield spikes
- Meanwhile, government bond curves flattened across the globe
- Analysts are becoming more bullish about US stocks after the latest earnings
- Abu Dhabi continues to be one of the best-performing markets in the world

The phantom of inflation is spooking people across the globe. Last week, it was the turn of Europeans to realize consumer prices had risen faster than the ECB's target in September. Rising prices are starting to be reflected more aggressively in government bonds, with short-term yields from Australia to Italy and Greece seeing the biggest weekly rise in many years.

Investors are also indicating that if central banks hike too early they could curtail future growth. Long-term yields rose less than short-term ones in many countries last week. Ultimately, high inflation because of strong demand entails strong growth. This, along with the prospect of lower long-term yields suggests that risk assets can continue to perform well.

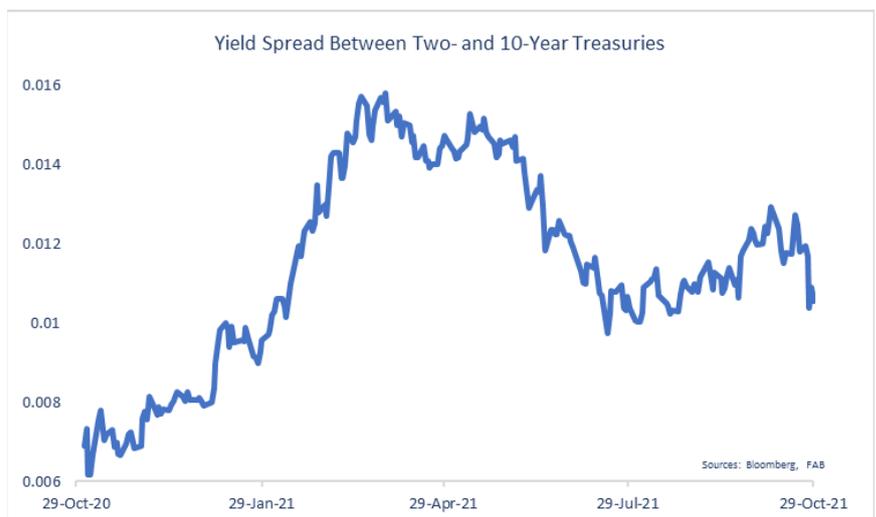
### SHORT-TERM RATES IN EUROPE SPIKED AS INFLATION SURPRISED TO THE UPSIDE



- The yield on two-year Italian bonds rose 39 basis points in a week, and the Greek and Portuguese peers rose 26 and 19 basis points respectively.
- Eurozone aggregate CPI surprised to the upside last week, rising 0.8% month-on-month and 4.1% year-on-year, with core CPI at 2.1% YoY.
- The move was even stronger in Australia, where the two-year spike 66 basis points in a week, the biggest weekly move since 2001.
- The dollar index rose 0.8% on Friday, suggesting carry trades being created.

### THE US TREASURY CURVE FLATTENED BY 12 BASIS POINTS LAST WEEK

- While two-year rates have spiked across the world, 10-year yields have moved sideways or lower.
- The flattening could be a sign that the market expects growth to decelerate sharply if the Fed hikes rates.
- The curves of several government bond markets, from Australia to Europe saw similar flattening.
- The move was driven mostly by a 22.5 basis-point rise in the yield of two-year Treasuries in October alone.
- Meanwhile, the 10-year yield rose only 6.5 basis points this month.



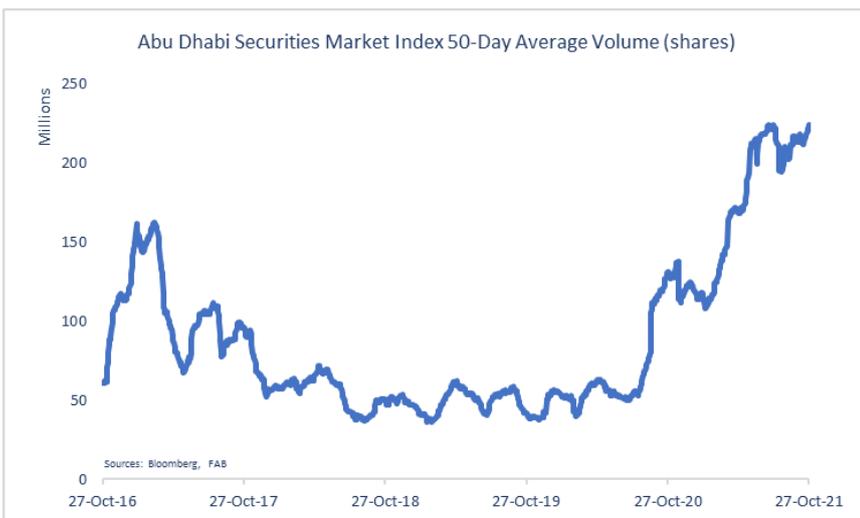


## ANALYSTS STILL SEE US STOCK EARNINGS CONTINUING TO RISE STRONGLY

- Since the start of the third quarter earnings season, analysts have revised their earnings forecasts for the next 12 months for the S&P 500 by 2.2% last week alone.
- The move makes US stocks more attractive, as forward P/E valuations drop due to higher expected profits.
- So far, 82.4% of the 279 companies in the S&P 500 which have reported earnings have beaten estimates.
- The energy sector has seen the best results, with revenues 7.8% higher than expected amid high oil prices.



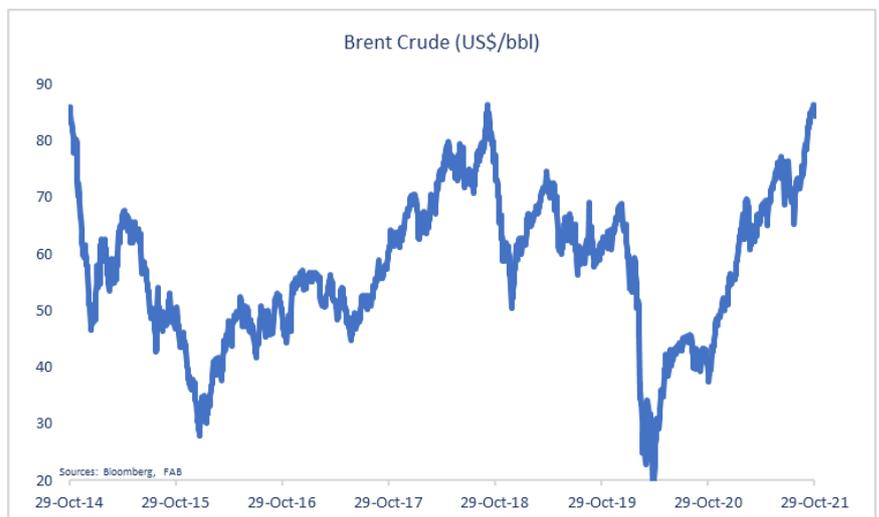
## PRIVATIZATION DRIVE AND FOREIGN OWNERSHIP LIMITS ARE BUOYING ABU DHABI



- The Abu Dhabi index is up nearly 57%, year-to-date, making it one of the best-performing markets in the world.
- The increase in foreign ownership limit of several key companies has more than quadrupled Abu Dhabi's traded volume in two years.
- A recent drive to monetize state assets through the local market is deepening the market.
- This 'deepening' cycle could provide dividends for a few years to come, as the market becomes more diversified and more attractive to foreigners.

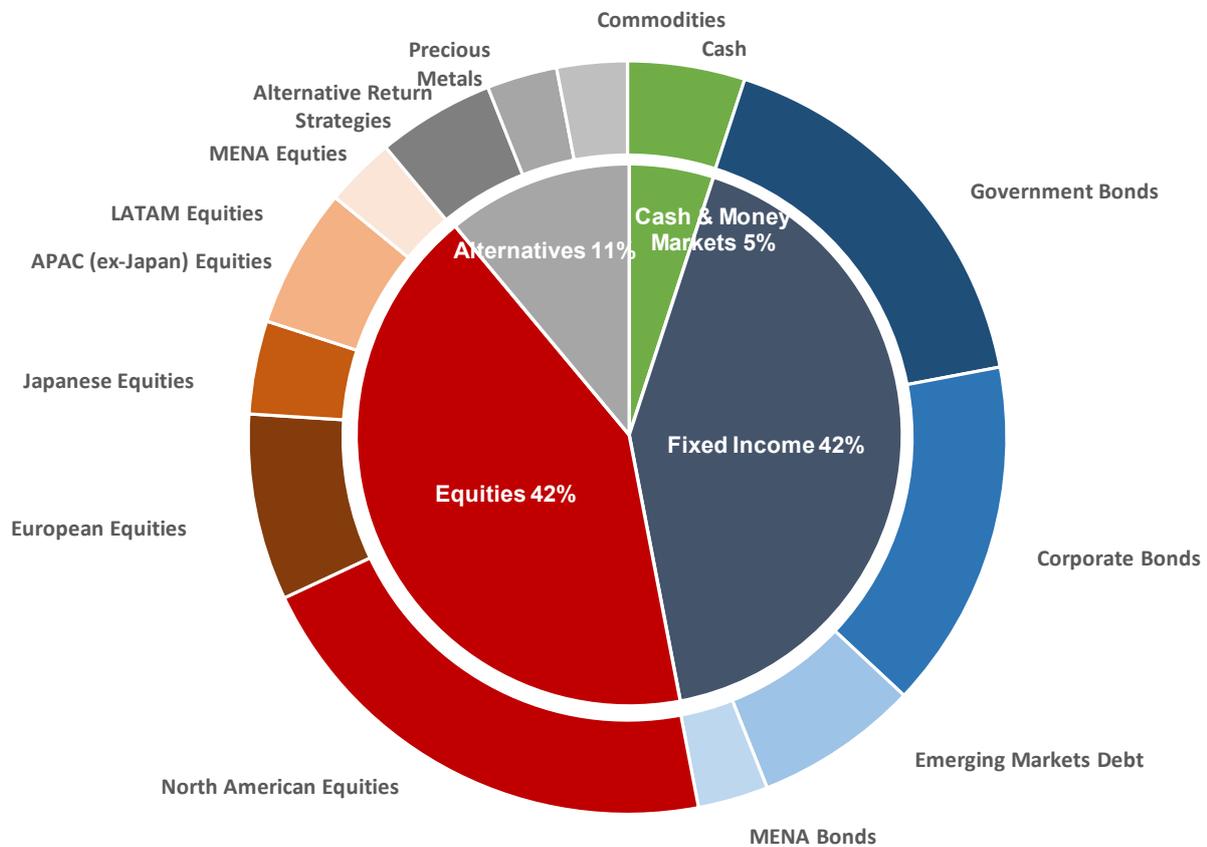
## BRENT HIT THE HIGHEST SINCE 2014 ON TUESDAY BEFORE RETREATING MARGINALLY

- Rising energy demand in Europe and the US while supply remains steady pushed oil prices to a seven-year high.
- The futures contracts expiring in a few months are lower than the spot price indicating strong current demand for the commodity.
- Approach of winter amid high natural gas and coal prices could increase demand for oil in coming months.
- Oil prices could retreat next year, though, once OPEC+ and US shale producers start to increase output.





Asset Class	Positioning	Detail
Cash	Underweight	Putting cash to work in risk assets.
Fixed Income	Overweight	Keeping a slight overweight focused on EM dollar debt and on corporate investment grade bonds
Equities	Overweight	Slightly overweight in Asia ex-Japan and US markets.
Alternatives	Underweight	However, reducing the underweight in hedge funds





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