



CIO OFFICE MORNING MARKET WRAP – Wednesday July 1st, 2020. ALSO AVAILABLE ON ALEXA.

The second quarter of 2020 ended yesterday and it will be remembered for combining a brutal economic contraction with a spectacular bounce in financial markets. Over the last 3 months, equities in both emerging and developed markets printed their best quarterly performance in a decade, nearing +20%. Actually all major asset classes from government and corporate bonds to Gold and hedge funds delivered positive returns.

This “rally of everything” was primarily due to massive liquidity injections from Central Banks, combined with the start of an economic recovery and importantly, a pool of underinvested investors struggling to participate. This last point probably explains why yesterday, the last day of the quarter, was so positive: not missing the rally is a matter of survival for many professional investors, as illustrated by the fact that hundreds of hedge funds have been liquidated so far in 2020. US stocks rose 1.6% yesterday with an acceleration at the end of the session, outperforming other exchanges, when a jump in US consumer confidence was reported.

The index from the conference board came out at 98 for June after 86 in May, way above expectations and the largest month on month gain since 2011. Our local markets were slightly negative as the price of Brent crude oil moved down 1.3%. Interest rates were steady, and Gold touched the \$1800 mark for the first time in almost a decade.

Apart from the precious metal, there is no doubt that stock markets didn't reflect the current key concern for the global economy: the number of COVID-19 cases is unequivocally rising on the American continent, especially in the US. The specialist Doctor Fauci warned lawmakers that the number of daily infections could reach 100,000 a day if behaviours don't change – mandatory face-mask usage would certainly help without freezing the economy again. Chairman Powell addressed lawmakers and unsurprisingly called for more fiscal stimulus, while leaving open the possibility of increasing the Fed's support especially for small businesses.

Another general lockdown is certainly not an option, especially during a presidential campaign. Two leading Chinese firms, Huawei and ZTE, were designated as national security threats by the US Federal Communications Commission. This is not a formal ban, but a large step in this direction. A formal travel ban is what the European Union decided for US residents in a decree which will be revised every 2 weeks. Starting today however, Chinese residents will be allowed on the condition of reciprocity for EU citizens. We have little doubts that geopolitical topics will come back in the quarter which is just starting.

As we write this morning, it starts pretty well in Asia, with stocks ticking higher in Shanghai, Sydney and Seoul. Tokyo is flat to slightly negative: the Tankan survey showed that confidence among large manufacturers fell to the lowest in 10 years. Oil future contracts are well oriented, up 1% as we write. Today will see the release of a lot of interesting data, especially manufacturing PMIs in Europe and its US equivalent, the ISM manufacturing, at 6PM Dubai time.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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