



CIO OFFICE MORNING MARKET WRAP – Monday August 31st, 2020. ALSO AVAILABLE ON ALEXA.

Monday ended a brilliant month with a mixed session on financial markets. After an acceleration in the rally last week, some consolidation is probably simply sound. Stocks fell 0.5% in the developed world and 1.1% in emerging markets, while interest rates moved marginally lower. The 10-year Treasury yield lost 2bp to 0.70%, and you have to extend the maturity to 30 years to get a return close to 1.5%, actually just below. Risk-free return instruments have simply vanished, and after the Fed's shift in attitude towards inflation, we could even consider some bonds as being "return-free" risk.

This environment is not adverse to Gold, which continues to get closer to the \$2000 mark again, currently trading at \$1988. Oil prices were also well oriented: the price of Brent crude oil moved up 1.1% to \$45.5 - should equity markets be right in the spectacular recovery they are pricing-in, then energy prices should benefit. With regards to currencies, the trade-weighted US dollar continued to move lower, down 0.1% against major counterparts, especially the Euro.

Looking at the month of August, the risk-on pattern was obvious: global stocks were up 6% while the US Dollar 10 year Treasury yield was almost 20 basis points higher. The stock-rally was not only driven by tech and healthcare, the winners of the COVID-19, but also by so called "re-opening stocks" including some airlines or cruise liners. Still, Zoom video raised its annual revenue forecast yesterday, which triggered a 23% surge in its share price in late trading, reminding us that the pandemic is not over, and that it has accelerated changes in the way we interact and work. Talking about important changes, a US and Israeli delegation is currently in the UAE for high level discussions on cooperation. They landed yesterday in the first ever El Al commercial flight from Israel to Abu Dhabi, with the number 971 as a nod to the UAE international calling code. All international relations are not that smooth: China's change in regulation on exporting technology is definitely a poison pill aimed at complicating the sale of TikTok's US operations.

As we write this morning, Asian markets are mixed. Emerging countries are overall unchanged, helped by a weaker US dollar, but the tech sector is well oriented, replicating another all-time high for the Nasdaq 100 yesterday, fueled by Apple's stock split. As a result, technology rich South Korea and Hong-Kong and slightly in the green, while Japan and Australia are slightly negative. Western future contracts are unchanged. In the US, the presidential campaign accelerates, and President Trump's re-election prospects are clearly improving. His aggressive move directly targeting the response of Democrat local leaders to violent riots on the theme of "law and order" is generating a positive momentum in the polls. Moving South, Argentina managed to restructure its debt, exchanging 99% of its bonds held under international law. The country has defaulted nine times on its sovereign debt. This week is rich in important economic data and it really starts today with manufacturing PMI indices being released everywhere, from Turkey, Spain, Italy, France and Germany this morning to of course the US ISM tonight at 5.45 Dubai time. Based on the consensus, the activity gauges are expected to be unchanged in the Eurozone at 51.7, and up 0.6 in the US at 54.8. If we had to bet, we would see both of them potentially a bit better: inventories are low and production should catch-up after the lockdowns.

Stay safe.

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