



CIO OFFICE MORNING MARKET WRAP – Thursday October 1st, 2020. ALSO AVAILABLE ON ALEXA.

Global financial markets ended the month, and the quarter, on a slightly positive note yesterday. Global stock indices were only marginally up, by 0.4% in emerging markets and 0.1% in developed regions as a whole, but the US appreciated at the end of the session to print a 1% gain which bodes well for the rest of the world today. Interest rates were firmer with the 10-year Treasury yield increasing 4 basis points to 0.69%. The price of oil was unchanged, but advanced after crude inventories fell to their lowest level since April, with US supply shrinking. The trade-weighted dollar moved down by a significant 0.4% today, also consistent with an overall modest but clear “risk-on” tone. The reason was renewed hopes for an agreement on a stimulus plan in the US. There is no deal yet, but the two sides signaled progress, and the Democrats postponed the vote on their \$2.2 trillion proposal to give negotiations one more day. This proposal would pass the Democrat controlled House but wouldn’t at the Republican controlled Senate, hence the additional delay. This would be a good news for the economy and for markets of course, and a nice way to restore some respect in the US politics after a chaotic presidential debate.

End of quarter rebalancing has also probably had an impact on markets yesterday, as some defensively positioned institutional investors may have taken the opportunity of the current turbulences to reduce their underexposure. September was indeed the first negative month since March with all asset classes in the red. Gold lost 4.2%, followed by Developed Markets stocks with -3.4%, global REITS losing -3%, High Yield returning -1.9% and EM stocks at -1.6%. Despite this, the third quarter was still very positive: stocks added almost 10% in Emerging markets and 8% in Developed, while Gold appreciated close to 6% and High Yield returned more than 4%.

Our local markets were part of the performance over the quarter and ended it well with the DFM and ADAMI adding respectively 0.9% and 0.5% yesterday, both led by financials. After the market close however, the Dubai based construction firm Arabtec Holding announced a plan of liquidation due to the company's financial losses following the outbreak of Covid-19. The company was not part of our recommended list of securities. Corporate news all around the world are also difficult in the most affected sectors, with plans to cut jobs at American Air, United, Disney, Airbus or Continental. The Q3 earnings season will start imminently, with sales numbers from consumer firms such as PepsiCo, H&M and Constellation hitting the tape as early as today. There is of course much more to come in the first 3 weeks of October.

As we write this morning, trading is light in Asia, with holidays in China, Hong-Kong, South-Korea and Taiwan but also because a major system breakdown halts trading in Tokyo. Shares in Australia and Singapore are both reflecting the positive sentiment from Wall Street yesterday, adding 1.5%, and Western futures are also well oriented.

Today is very rich in terms of economic data with Manufacturing PMIs being released in many countries. We will look at India, the Markit flash indices for Eurozone, and of course the US ISM at 6pm tonight. Staying in the US, personal income and spending monthly numbers for August will be released at 4.30 pm. The US monthly job report for September will be released on Friday and the consensus expects 868k jobs to have been created.

Stay safe.

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