



CIO OFFICE MORNING MARKET WRAP – Wednesday June 3rd, 2020. ALSO AVAILABLE ON ALEXA.

Markets focus on only one thing at a time. Their current topic is the reopening of the world businesses, and as long as it is happening, the rest is ignored. Large crowds of protesters marched in cities across the US, and authorities are taking various measures to contain the violence: curfews like in New-York and Washington, as well as reinforced security forces, including in some cases the National Guard. A majority of the protests were peaceful, but violence and looting incidents continued last night with spectacular images.

While Main Street was on fire, Wall Street was fine. Global stocks rallied 1.4% on Tuesday, led by Europe and Emerging Markets but joined by the US at +0.8%. Interest rates were slightly firmer, and the price of Brent crude oil moved up another 3.5%, now very close to \$40, in anticipation of the OPEC+ potential extension of production cuts. The message from financial markets is simple: the reopening of the world economies means a growth recovery in H2, accompanied by enormous amounts of liquidity and ultra-low interest rates.

Most of investors remain collectively underweight risk, and they reach the limits in their capacity to miss the rally. Of course, valuations are worryingly expensive, but they are not in an outright bubble relative to interest rates, assuming earnings strongly rebound in 2021. From a market's point of view, the US events are not an end to this story, as illustrated by Chicago, where the next phase of the reopening plan scheduled today will not be delayed despite intense and violent protests.

As long as the events don't last or spread enough to materially impact the economic recovery, markets will ignore them. As we write this morning, the rally is extending in the morning trading session. Asian stocks are all sharply up, reflecting the positive US close and boosted by a weaker dollar. The US currency was down 0.5% on average yesterday against major counterparts, and is weaker today, at its lowest level since late March, as global growth perspectives are getting better. South Korea is up almost 3% after the country announced a third round of fiscal stimulus.

China, India, Indonesia, follow suit with gains in both stocks and currency, and the Japanese Nikkei is up 1%, bringing its year to date loss below -5%. Brent crude futures are above \$40 for the first time. Futures on the S&P500 are also firmer. Since we bought back US stocks in March after having aggressively sold them in February, our positioning is currently neutral on equities, i.e. fully invested. Our long dated preference for Emerging Markets is only starting to gain traction. We stay in the current momentum as many investors will probably be reluctant to end the first half of the year with their losing underweight position. Having said that, fundamental upside is limited by elevated valuations and we are getting ready to take profits. Today the services PMI data will be important, starting in Europe and ending with the US Non-Manufacturing ISM at 6pm. Markets will look for a confirmation of an economic stabilization in May. We will also get unemployment numbers in Euro Area

Stay safe.

MAURICE GRAVIER
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