



## **CIO OFFICE MORNING MARKET WRAP – Thursday June 4<sup>th</sup>, 2020. ALSO AVAILABLE ON ALEXA.**

Wednesday was another spectacularly positive session on financial markets. As we write for some time, the focus of market participants is on the inflexion of economic activity, which explains why they keep on ignoring the protests in the US. May Service PMIs were released in major countries yesterday and confirmed the shift in economic momentum. In all of them, May was better than April and the numbers came slightly above expectations.

At 45.4 in this US, the Non-manufacturing ISM jumped from the 41.8 of April but is still below the 50 level, marking the limit between contraction and expansion, and miles away from the 57.3 mark reached in February.

The next important May data release will of course be the US job report tomorrow. The consensus expects a loss of 8 million jobs in May after 20.5 in April, an order of magnitude consistent with yesterday's ADP report.

For both activity and unemployment, there is no reason to turn euphoric, but some evidence that the worst might be behind us, which supports the scenario of an economic recovery with immense liquidity, very low rates, and an investor's positioning which is too defensive to participate to the rally.

As the end of the quarter approaches, many asset managers who missed the opportunity feel that they have to buy to be neutral, which is sad for their clients but good for markets, and explains the acceleration in the rally.

Global stocks rose almost 2% on average yesterday, across regions but led by Europe. Interest rates kept on gradually rising, with the US 10 year Treasury yield increasing 6 basis points to reach 0.75%. The price of Brent crude oil slightly consolidated, down 0.8% to \$39.2: it is unclear whether the OPEC+ will unanimously agree on extending the production cuts, and the EIA report confirmed a terrible backdrop for demand. The dollar kept on moving down, losing 0.3% on average which helped Emerging Markets.

In the news, the Chinese central bank announced several additional policy easing measures, including a facility to purchase SME loans. The country where the pandemic started also said they will allow more foreign airlines to resume inbound flights. This is a response after the US issued an order to stop Chinese airlines from flying passengers to America.

President Trump is however currently extremely busy dealing with internal issues. US Defense Secretary Mark Esper yesterday publicly opposed the idea of sending the US Army to contain protests, considering that this actual possibility is only a matter of last-resort. Nevertheless, the energetic President said that if the New York governor and mayor don't restore order in their state, he will do it. There is a good news in New-York: yesterday showed the lowest daily death toll and hospitalization rate since the coronavirus outbreak began.

On the other side of the Atlantic ocean, the European Central Bank will meet today and is widely expected to boost its pandemic emergency purchase program by 500 billion euros. Monetary support is indeed the bedrock of the current market recovery, and together with investors' positioning, explains why "okayish" data can have a strong positive market impact. But as valuations are progressively becoming unreasonable, vulnerability is building: monetary support will be there for long but will not be increased all the time, and investors' positioning is being normalized as quickly as stock markets are rising.

As we write, the early hours of trading in Asia are showing a pause in the rally. Most of stock markets have erased their earlier gains and are now trading in slightly negative territory, as is Oil and the US futures.

Stay safe.

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