



CIO OFFICE MORNING MARKET WRAP – Tuesday August 4th, 2020. ALSO AVAILABLE ON ALEXA.

After a positive week and month, August had a strong start on global markets yesterday, fuelled by positive economic data and hopes for additional stimulus. On the former, the July ISM Manufacturing, a key leading indicator of US industrial activity, came out at 54.2, beating the consensus expectation of 53.6. Its forward-looking New Orders component, was at 61.5, way better than the already expanding 55.1 average forecast. Any value above 50 signals expansion, and this is the best number in more than a year.

Staying in the US, the extraordinary income support from the government have expired in July but White House officials and Democrats have announced some progress in talks and should meet again today. This was not unexpected, but the surprise came once again from President Trump who announced that he was exploring its capacity to act on his own, through executive action, without waiting for congressmen to agree. "I'll do it myself if I have to", he said. Markets of course reacted well to both good numbers and potential for more support. Global stocks rose 1.3% in Developed Markets, with a usual East to West hierarchy where Japan outperformed Europe which outperformed the US.

The technology rich Nasdaq outperformed, up 1.5% yesterday and so far 21% in 2020, with Apple setting an all-time high in particular. Emerging Markets stocks were also well oriented, including our regional indices. As the catalysts were more economic than monetary, the rally was selective: bonds were slightly down as interest rates were firmer with the US 10-year Treasury yield adding 3 basis points to 0.55%.

The price of Brent crude oil moved up 2%, crossing again the \$44 mark, despite production cuts starting to be tapered. The trade-weighted US dollar was stronger 0.5% after its worst July in a decade. As we write this morning, the early trading hours in Asia are not spoiling the party with most of stock markets in the green. Another strong growth in Korean exports confirmed the idea that Asia is recovering fast.

Against all odds in the context of an unprecedented vicious pandemic, 2020 so far is a good year for investments: our 3 recommended profiles show positive returns year-to-date so far. To be honest, it's going a bit too well. As our readers know, we have never been in the pessimistic camp but still, we found that markets were already priced for perfection a month ago and they keep relentlessly rising. We understand the dynamics, and especially the combination of excessively negative sentiment from many professional investors with extreme enthusiasm from retail investors, in a context where corporate numbers and policy responses keep on providing fresh good news. But the dynamics have lifted valuations in vulnerable territory, which is why we keep our slightly underweight position in risk assets for the moment.

So far, so good, we were more aggressive in the strongest part of the rally in Q2, and our overweight in Gold combined with our preference for Emerging Markets are doing fine in the current phase. The recovery has started and interest rates will remain extremely low, which justifies high valuation multiples, but the implicit scenario begins to look a bit optimistic even for us, at a time when the virus is still not behind us. The global number of COVID 19 infections keeps on rising and exceeded 18 million yesterday, with Americas still not in control. What also stands in front of us is a mountain of debt. The US Treasury just increased its quarterly debt financing estimate for the current quarter to \$947 billion, a serious jump compared to its initial 677 billion projection from May. Alphabet, Google parent's company, is joining the list of borrowers in a rare \$10 billion bond sale, to fund various support initiatives, from Black entrepreneurs to clean energy projects. Today the UK, Austria, South Africa and Switzerland will also sell bonds. And somebody will buy them, no doubt, as anyway major central banks are providing a mountain of liquidity. There won't be major economic data today – tomorrow is richer, but the earnings season continues especially in Europe with BP, Accor, Infineon, but also Walt Disney in the US. Stay safe.

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