



CIO OFFICE MORNING MARKET WRAP – Sunday October 4th, 2020. ALSO AVAILABLE ON ALEXA.

The year 2020 has so far proven to be a dramatic one for investors, who are not only confronted with the uncertainty caused by the first pandemic in this century, but are also stunned at the virus ease in infecting some of the most guarded people in the world, from UK President Boris Johnson, to Brazilian President Jair Bolsonaro and now even the President of the United States Donald Trump alongside the first lady, who will both immediately undergo a period of quarantine.

President Trump has been reported to have “mild symptoms” and be able to carry out his duties “without interruptions”. Risk assets, after being off to a good start for the week as investors engaged in some bargain hunting, succumbed to heightened volatility on Friday following Mr Trump’s announcement that he and the first lady had tested positive for Covid19. The S&P 500 lost 1% for the day and the Nasdaq 2%, although US stocks managed to close the five days through Friday 1.5% higher, ending four weeks of back-to-back losses. Other developed markets went through a volatile session, at one point hit by news related to the US President, at the other boosted by continued talks of fiscal stimulus in Washington.

The Euro Stoxx 600 managed to deliver a return of +2% through Friday, US 10-year Treasury yields ended 1.5bps higher, while Brent crude slumped by more than 7% on waning demand prospects. Gold rebounded, partially making up for the previous week of losses and the dollar followed the opposite pattern by retracing earlier gains. With just one month to go to the November elections, the US President's falling sick opens up a Pandora's box of questions related to his campaign, which is expected to be disorganized in the shorter term due to the quarantine period.

The actual impact will depend on how the symptoms will evolve. Should Mr Trump become incapacitated, the 25th Amendment would apply and the vice president would take over, and after him the House Speaker Nancy Pelosi would. Experts say that it is unlikely the election will be delayed due to the President's illness. Assuming that a prompt recovery follows, there is diverging opinions as to how the campaign will be shaped, ranging from Mr Biden's chances being now "slightly" increased, to Mr Trump getting some sympathy and Biden's campaign being in the spotlight during the quarantine.

An immediate consequence of the new state of affairs is that the odds of fiscal stimulus have risen significantly, bringing to the fore the seriousness of the pandemic and making a deal all the more relevant for Republicans now with the President's limited ability to campaign. A top World Health Organization official said that the White House cluster needs to be promptly investigated, following news that Trump's campaign manager Stepien got infected and also ex adviser Conway has the virus. Pandemic news-flow remains far from comforting, with global deaths now above one million and warning signs still flashing in India as well as in the West ahead of the winter.

Germany advised against travelling to Scotland and most of the Netherlands because of the high risk of infections, while India's death toll passed the 100,000 mark. While the race to develop vaccines continues, Novartis CEO warned that effective vaccines won't be available until the end of 2021 and that they won't be enough for protection without additional therapies. Pfizer CEO vowed to resist political pressures related to vaccines, saying that the firm will be "moving at the speed of science" in this direction. Minneapolis Fed president Kashkari said that even if there is a vaccine, the recovery in both jobs and GDP is going to be "grinding". Pandemic-related labor pain continued across the major countries, with thousands of lay-offs announced by Walt Disney, Goldman Sachs, Royal Dutch, Bayer and many others.

On the other hand, last week's macro releases showed that the global recovery is well under way. In China both business confidence indices beat consensus estimates, with the services gauge hitting a multi-year high; US consumer confidence, Japan retail sales and industrial production also topped estimates. Friday's jobs report painted a more muted picture, with non-farm payrolls growth slowing to 661,000 for the month of August against a projection of 859,000. The significant fall in unemployment reflected permanent employment losses advancing at a faster pace than during the Great Recession.

Although the first presidential debate in the run-up to the November elections was supposed to be the event of the week, it got overshadowed by the latest developments in the campaign and turned out to be quite a poor show marked by interruptions and ongoing arguments, providing little, if no food for thought for investors. Closer to us, our region is mourning the death of Kuwait's ruler Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, who was 91. He is succeeded by Crown Prince Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, who is 83.

Stay safe.

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