



CIO OFFICE MORNING MARKET WRAP – Sunday June 7th, 2020. ALSO AVAILABLE ON ALEXA.

Markets ended a positive week with a strong close on Friday boosted by an unexpected increase in US payrolls and a bold European fiscal plan. On the day global equities were up 2%, the S&P 500 up 2.6%, and the Nasdaq set a new intraday high. US equities are flat for the year whilst European equities are at a 3 month high boosted by banking stocks up 17% for the week, their strongest weekly performance since 2009. Global equities are now down just 4% in 2020.

The US May employment report had a huge upside surprise. Nonfarm payrolls increased by 2.5 million and private sector payrolls by 3.1 million. The unemployment rate fell to 13.3% from 14.7% in April. Consensus was for 19.9% in May. This along with recent improving PMI data is supportive of economic activity having bottomed in April. However there is talk of a misclassification error with people being recorded as employed but absent rather than temporarily laid off.

While the US unemployment rate at 13.3% is high by historic standards, markets are riding the stimulus wave and a weaker Dollar. The developed market equity rally was accompanied by strong gains in Asia and other emerging economies. US China tensions however persist and recovery in the Chinese economy is gradual. China equities are now positive for the year. The cyclical sectors in line with improving economic data led the equity rally.

The Philadelphia Semiconductor Index closed at a record high. Airlines, automakers and banks gained as investors see the economy recovering from the virus lockdown quicker than anticipated the energy, financials and industrials sectors were up more than 10% last week. Defensive sectors that is utilities and consumer staples took a back seat as did gold which ended the week below \$ 1700. Oil had a sixth weekly gain with Brent now at \$42.3. The OPEC+ meeting this weekend agreed to a one month extension of the cuts with production capped at 9.7 million barrels to the end of July. Global oil demand fell by as much as a third in April but has started to recover along with resumption of road travel and flights. China has seen demand return almost to December levels.

China is the world's second largest oil consumer after the US. UAE and KSA markets should see renewed interest with the higher oil price supportive. Dubai retailers expect to get a clear feel of shopper sentiment now that malls in Dubai are back to full capacity. U.S. Treasuries ended the week down, especially on the longer-end. The 2-year yield increased two basis points to 0.21%, while the 10-year yield increased eight basis points to 0.9%, its highest level since March 2020. This week the major focus will be on the Fed rates decision and on the virus numbers as lockdowns ease. Latin America is now the epicenter overtaking the US and Europe. However mass protests in the US against racial injustice raise the possibility of a new wave of infections.

Stay safe.

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