



CIO OFFICE MORNING MARKET WRAP – Monday June 8th, 2020. ALSO AVAILABLE ON ALEXA.

Asian stocks start the week with gains, following last week's sizeable global equity rally. Equities are up this morning in Japan, China and Hong Kong, while Korean markets are flat. The dollar has extended its recent decline whilst the GBP, Yen and Euro are slightly stronger. The US dollar is close to where it started off at the beginning of the year. US Treasuries are holding steady with the yield on 10-year Treasuries little changed at 0.89%.

Gold also is holding steady at \$1,688. Global governments are gradually easing their coronavirus lockdowns to revive economic growth while having to control the spread of Covid-19. Markets have responded positively with signs of increased consumption. Friday's U.S. jobs report smashed expectations and bolstered hope of a quick economic rebound. New York City will begin re-opening after recording its first day since March with no virus fatalities. India has started a phased lifting of its nationwide lockdown. The UK plans to open outdoor restaurants on June 22nd earlier than planned with 3.5 million jobs at risk in the hospitality sector. Airlines too are seeing a severe impact from the restrictions on travel. A report from S&P Global Ratings highlights airports across the world facing a long, slow climb to recovery from the fall in traffic and revenues due to the COVID-19 pandemic lockdowns and travel

restrictions. They estimate global air passenger numbers will drop by about 50% to 55% in 2020 compared with 2019, and expect passenger numbers will stay below pre-pandemic levels through 2023.

Oil is up by a percent this morning with Brent futures at \$42.9 adding to its gains after the weekend OPEC+ meeting where it was agreed to extend the deeper level of production cuts by an additional month. While an additional month of deep oil production cuts may not have an enormous impact on oil market balances it will help to provide a floor to oil prices. The OPEC+ cuts have been a big part in helping oil prices recover in the last two months. Brent futures were up nearly 20% last week, while WTI was up by 11%. Demand pick up can also be seen with economies opening up. OECD releases its economic outlook Wednesday, a twice-yearly analysis of the economic prospects of member countries.

UAE markets as expected, followed the uptick in oil and rallied yesterday led by banking stocks with some up 10%. This is in line with the bank rally which began in the US and then continued in Europe and has headed further East to the GCC. Again in line with global markets the more defensive telecom sector underperformed. The KSA Index short term upside is held back by the lockdowns, necessary to contain spread of the virus.

US corporate default rates in the energy sector are less of a worry with oil prices providing support. US high yield spreads fell to 537bps, last week led by a rally in the lower quality buckets. In the corporate debt market spreads tightened with US investment grade spreads down to 146bps due to a slowdown in issuance and the Fed's buying of ETFs. M&A in the healthcare sector is creating synergies. There are reports on a merger between AstraZeneca and Gilead. AstraZeneca, valued at \$140 billion, is the U.K.'s biggest pharma company with a broad range of treatments. Gilead, worth \$96 billion has a drug that's received U.S. approval for use with coronavirus patients.

US futures are flat this morning but it's too early to predict how the market opens. Expect range bound action on the US indices with the focus on the Fed's policy meeting this week, with expectations that Powell will likely re-commit to using the full range of tools to support the U.S. economy during the pandemic. No market looks cheap any more except relative to each other. The US S&P 500 is trading at almost 26 times forward earnings and emerging markets are close to a 16 times multiple. The stock market is continuing to rip, with cyclicals now jumping into the rally which is a typical recession playbook. Stay safe.

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