



CIO OFFICE MORNING MARKET WRAP – Tuesday September 8th, 2020. ALSO AVAILABLE ON ALEXA.

With North American markets closed for Labour day, volumes were lower than usual in Europe, where the Europe Stoxx 600 closed 1.7% higher led by automakers. Stock gains came in spite of the fading recovery and Germany's July industrial production undershooting consensus expectations by a wide margin. Investors are looking forward to the ECB monetary policy meeting on Thursday for market direction, when new staff macroeconomic projections will be released. Asian equities were mostly negative, still affected by last week's heavy selloff in technology stocks. Although in the two-day rout the Nasdaq Composite lost 6.2%, that is unlikely to represent the start of a de-rating for the Information Technology sector.

According to views expressed by Fed officials a strong recovery remains elusive, hence growth stocks, given a minimum of economic growth and unlimited stimulus, should continue to be a haven to flock to until investors acquire more confidence in a solid outlook. For the shorter term, though, markets may remain wary, given the meteoric rise caused by unusually large option trades initiated by the Japanese conglomerate Softbank in major US large-cap names in the sector. Option trades were so outsized that SoftBank has been dubbed 'The Whale' and its long positions on calls saw the counterparty investment banks, which sold the calls hence

were short those contracts, hedge their books by buying the underlying stocks. This started a vicious circle, whereby other investors jumped in and IT stock swings were unduly amplified. Softbank's founder decision to make aggressive bets on US derivatives took its toll, though, as unnerved investors Monday dumped their holdings in the conglomerate, which lost more than 7% for the day.

While futures on the broader US stock indices climbed yesterday, those on the Nasdaq were down 0.5%. As the Brexit clock continues to tick, the European Union and the UK seem to be determined to achieve a divorce on bad terms. Each side has so far been unwilling to make concessions on something the other is expecting for talks to make progress. So much so that chief negotiator David Frost said that Britain isn't scared of walking away empty-handed. It is boding even worse that Boris Johnson is planning to introduce legislation that would override parts of the withdrawal pact. The Pound Sterling, the barometer of Brexit uncertainty, lost 0.6% last week after peaking at 1.35 and was down 0.8% yesterday. With extensions no longer possible, if a trade deal is not achieved by the end of the year a No Deal Brexit becomes reality. Tensions between the US and China continue to rise.

After Secretary of State Mike Pompeo has announced the 'Clean Network' program, urging allies to abandon Chinese technology, China is now hitting back. The Foreign Minister Wang Yi is expected to announce today an initiative aimed at setting Chinese global standards on data security. Elsewhere the risk of conflicts becoming real is intensifying, with Turkey and Greece possibly teetering on the brink of one after Turkey refused to stop gas exploration activities near Cyprus where both countries claim jurisdiction. It will fall on Angela Merkel to try to calm the strife.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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