



## **CIO OFFICE MORNING MARKET WRAP – Sunday August 9<sup>th</sup>, 2020. ALSO AVAILABLE ON ALEXA**

Global equities were up 2.1% for the week, despite exacerbated U.S.-China tensions, the continuing rise in global COVID-19 cases and stalled talks in the US Congress around a new fiscal relief package. There are hopes for a quicker economic recovery from some of the larger investment houses who expect a vaccine by the end of the year or even as early as this fall.

The week saw a broad based equity rally, though safe haven assets also rallied. All major markets had a positive week from Asia to Europe with Japan leading with a 3% gain and China lagging but still up a percent. In the GCC , the Dubai market stood out, up 2.8%. The S&P 500 and Nasdaq gained 2.5% with small-caps in the US up 5.4%.

Industrials were the best performing sector last week along with the DJ Transportation index, seen as a precursor of market movement. Treasuries and gold were sought after with the 10-year yield finishing at 0.56%. Gold closed at \$ 2025/ounce up 2.6% for the week. The Dollar finished higher against other major currencies and posted its first weekly increase after six weeks of declines. Oil holds steady with Brent holding above \$44 and WTI above \$41. An important week for oil with assessments expected from OPEC and the IEA.

Encouraging July global manufacturing and services sector PMI reports suggest a recovery in global economic activity, along with Friday's upbeat U.S. nonfarm payroll figures. The US Jobs report was however far from perfect, with non-farm payrolls coming in at 1.76 million vs. consensus expectations of 1.58 million, with the unemployment rate still elevated at 10.2%. China reported much stronger-than-expected July trade figures and Japan's household spending activity came in better than forecast.

There are heightened tensions between the U.S and China with Pres. Trump signing executive orders banning Americans from doing business with Byte Dance's TikTok platform and Tencent Holdings WeChat messaging app and imposing sanctions on Hong Kong's leader Carrie Lam, and a 10 other Chinese and Hong Kong officials. This led to a broad based tech sell off on Friday, starting with China and ending with the US. The Nasdaq however has crossed 11,000 making a new high last week and is up 23% this year.

Globalization is a key growth driver for China internet stocks, though the companies have a large domestic base with a Billion mainland China users. The companies that have relatively higher exposure to the US are mainly the online entertainment apps (mobile games, streaming media) and messaging/social networking.

However US revenue exposure currently is below 10% for the large China tech companies. A possible retaliation on Apple, Qualcomm etc that depend on China for growing sales led to the US tech sell off.

The language of Pres Trumps order is vague hence it is too early to analyse the larger impact, as the US Commerce department has 45 days to interpret and enforce the rules.

Earnings season in the US continued to beat a bar of low expectations. Almost 90% of the S&P 500 companies have reported Q2 earnings and 66% have beaten revenue forecasts and 77% earnings forecasts. 2Q revenue growth is around -11% year on year and earnings growth -32%. Energy companies including BP have cut dividends and Saudi Aramco reports today and dividend guidance will be closely watched.

Stay safe.

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