



CIO OFFICE MORNING MARKET WRAP – Thursday September 10th, 2020. ALSO AVAILABLE ON ALEXA.

The US markets staged a rebound to end the session off their highs, with the S&P 500 and the Nasdaq yesterday gaining 2% and 2.7% respectively. Asian stocks have opened firmer this morning, while US futures are little changed. Although US stocks went through a three-day rout starting from last Thursday, their bullish trend remains intact and only time will tell whether investors can soon find reasons to push indices to test their all-time highs. As economic momentum stalls and presidential elections loom larger, the valuations gap between growth and value stocks, the latter being more geared to the economic cycle and relatively cheaper, remains unusually wide.

Yet, as appealing as the opportunity might be to bring some healthy sector rotation to bear, depressed Treasury yield levels thus far suggest little confidence in a substantial improvement in the outlook. US long-dated yields were little changed and the US dollar recorded mild losses. The case for an extended rebound for the dollar could be there, with record bearish bets, bottoming real rates and dented risk appetite drivers of a possible short squeeze. Brent crude regained the \$40/bbl level, but in its monthly publication the US Energy Information Administration said that demand remains subdued at 92% versus the same prior-year month.

Forex and gold traders are looking forward to today's ECB policy meeting. Contrary to expectations, it seems that the new staff economic forecasts will be confirming confidence in the outlook, potentially reducing the need for more stimulus later this year. The euro promptly snapped six days of declines, while gold took little notice and rebounded off the \$1,900 support level. Legendary former hedge-fund manager Stanley Druckenmiller said in an interview that inflation could jump to 5 to 10% in the next 4 to 5 years, given the new Fed policy of Average Inflation Targeting.

He also acknowledged that deflation risks have been raised at the same time, being a possible consequence of the asset bubble inflated by persistently loose monetary policy. Indeed, stocks thrive in the low-rates environment the Fed has created for years and lack of inflation is set to propel markets even higher via continued multiple expansion and the possibility that the economy is eventually run red-hot. If there is a bubble, everybody will sadly be forced to ride one waiting to see if the final verdict is either inflation or deflation. The Brexit saga risks turning into a nasty divorce burdened by dragging legal cases.

The EU sees ground for legal action against the UK, following Boris Johnson's plans to break commitments to the EU over the Irish border. It is not at all clear what the UK PM is trying to achieve, apart from causing a backlash from both Europe and within his own party. Uncertainty continues to weigh on the pound, which yesterday briefly broke below 1.29. Trials of the vaccine Astra Zeneca is developing with Oxford are set to resume next week following the shutdown triggered by a serious adverse reaction. US Francis Collins, head of the National Institutes of Health, remains hopeful that there will be a vaccine by year-end.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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