



CIO OFFICE MORNING MARKET WRAP – Thursday June 11th, 2020. ALSO AVAILABLE ON ALEXA.

Global equities had a slightly negative day across the board. Global equities remain up about 40% from their March lows as central-bank asset purchases and record stimulus has sparked demand for risk assets. US equities ended down for a second day however the Nasdaq remains resilient, setting another record high. Rotation into large-cap tech continues giving growth the advantage over value. An uneventful trading day in GCC markets with the UAE and KSA closing flat.

This morning Asian benchmarks and U.S. and European equity futures are slightly down. The US dollar is lower vs the Euro, Yen, and Pound. Oil has been volatile with Brent futures at \$ 40.6 a barrel this morning. U.S. crude stockpiles hit a record 538 million barrels last week, even after oil output has fallen by at least 2 million barrels a day since mid-March in the US.

Treasuries consolidated gains post the Fed decision. The U.S. 10yr yield fell 11% closing at 0.73% in turn placing pressure on the financial sector, specifically banks. Most segments of the fixed income market were comforted with the Fed's continued dovish rate and quantitative easing. Takeaways from the US Federal Bank meeting include their keeping rates unchanged with a target level of 0-0.25% with plans to keep this range through 2022 or until

they are confident in the recovery. They see unemployment at 9.3% in the final quarter of 2020 from 13.3% in May, and indicated US GDP could contract by 6.5% this year before rebounding 5% next year. They see the economic path as uncertain and dependent on the path of the virus. They plan to maintain asset purchases "at least" at the present pace. Bond purchases to stay at current levels while increasing the amount of Treasury and mortgage holdings and ultimately using all tools necessary to help improve economic conditions. Jerome Powell sought to manage expectations about the state of the U.S. recovery.

The Fed chief said that while May's jobs data were unexpectedly positive, "it's a long road." He said that the central bank has been unable to get inflation to its 2% target even during the 128-month economic expansion that just ended. He also said officials have discussed the usefulness of controlling the yield curve, but whether it would help "remains an open question." The OECD too came out with revised economic growth targets and sees the U.S. economy shrinking by more than 7% this year.

It sees global GDP falling 6% if the virus continues to recede, while a second wave may trigger a 7.6% drop. Euro-area output is expected to fall 9%, while Italy, France and the U.K. will all shrink more than 11%. Tech stocks remain in favour with many at all-time highs. Tesla soared past \$1,000 after Elon Musk told staff it's time to put the Semi truck into production, taking away the spotlight from newly listed electric-truck maker Nikola. Good news on the vaccine front but no certain outcome as yet. The U.S. will fund and conduct the final studies of three experimental vaccines starting this summer. Moderna's in July, followed by Oxford University and AstraZeneca, then J&J's.

Stay safe.

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