



CIO OFFICE MORNING MARKET WRAP – Tuesday August 11th, 2020. ALSO AVAILABLE ON ALEXA.

Ongoing US and China tensions continue to weigh on markets, however the S&P 500 approached its all-time high reached in February and Apple is close to being the first two trillion dollar company. The S&P 500 closed +0.27% and the Nasdaq -0.39%. Value significantly outperformed Growth for the second consecutive session led primarily by Energy and Industrials while Technology and Communication Services lagged with the non COVID winners i.e. airlines and cruise companies gaining. Asian equities saw small gains in China, Korea and India yesterday, with Hong Kong equities slightly down. Japan and Hong Kong have opened up strongly this morning +2%, whilst China is slightly positive. The USD is weaker vs the Pound, stronger vs the Euro and Yen. Oil has extended yesterday's gains with WTI trading above \$42 a barrel and Brent holding above \$45. Gold is slightly lower at \$2020 and US Treasuries steady with the 10 year at 0.58%.

Though global virus cases have topped 20 million a fall in US hospitalizations is leading to improved sentiment. However, there is little progress on U.S. stimulus talks. Treasury Secretary Mnuchin told CNBC that Democrats' insistence on almost \$1 trillion for aid to state and local governments is "absurd," but maintained some kind of deal is possible. The past week has been about better earnings outlooks offset by uncertainty over fiscal stimulus extension. Overall, earnings have won, with the S&P 500 rising 2.7% in August so far. As 2Q earnings season winds down, we are seeing upwards earnings revisions for the S&P 500 with the consensus EPS for 2020 revised up from \$125 to \$130. The next

catalyst for US markets is the November election, which could soon start eclipsing virus related economic worries.

The US Dollar has enjoyed a decade of nearly uninterrupted gains. With the massive fiscal and monetary easing undertaken in the US, the USD made a major top earlier this year and now sits roughly 10% off its highs. The unprecedented policy revolution has helped reverse that trend since March. The Fed has cut rates leading to the reduction of interest rate differentials between the U.S. and most developed economies. Simultaneously fiscal stimulus has aided households and businesses. The strong policy response has revived risk appetite, driving investors away from the USD which is perceived as a safe-haven asset.

The Fed's measures to alleviate the dollar funding shortage also helped stall the rally. In general a weaker USD correlates with better performance from Emerging markets and Europe as well as cyclicals. The creation of the European recovery fund, and its upcoming issuance of pan-European bonds, has benefited the euro. US tech companies will benefit from a weaker USD as they have a strong component of overseas revenue. We could soon see a shift back to tech, away from the current rally in the COVID laggards i.e. financials, airlines, entertainment, luxury which are benefiting from hopes on herd immunity and a vaccine along with governments ability to manage the pandemic. We expect this rotation will see more traction, but eventually growth strategies will dominate. Any pullback in tech and healthcare should be used as an opportunity to add.

The Fed published the final common Tier 1 requirements for the large US banks. The highest requirement is from Goldman Sachs at 13.7% followed by Morgan Stanley at 13.4%. This is the first time that the Fed capital requirements include a "stress capital buffer" equal to the capital erosion under the Fed's most severe scenario plus planned dividends. The 15 largest US banks have already set aside \$76 billion for bad debts and the 32 largest European banks Euro 56 billion. However, consumers are seen to be more prudent now than in 2007 and have used payouts to partially pay down debt and government lending programmes have aided small businesses

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