



CIO OFFICE MORNING MARKET WRAP – Sunday October 11th, 2020. ALSO AVAILABLE ON ALEXA.

This year was rich in surprises, and last week was undoubtedly one of them. It started with the world's most powerful man being hospitalized due to Covid-19, with contradictory indications on his health. It ended with the very same President Trump, more energetic than ever, asking for a bigger fiscal stimulus only days after having instructed his teams to stop negotiating with the Democratic party on the very same topic. Many would have expected markets to react in an erratic, if not chaotic way. Not only didn't it happen, but global markets delivered their best weekly return since July, with every single asset class in the green, led by stocks adding almost 4% in both developed and emerging markets. Each time all asset classes are well oriented, the credit generally goes to some generous action from major central banks, but this wasn't the case last week. There was also no support for euphoria on the pandemic front, with rising numbers in the West, especially in Europe where mobility data are downshifting rapidly. The only positive is that if numbers show a big come-back of the virus, it is so far less deadly than in the first part of the year.

Back to markets. The reason for such a week was probably the combination of two factors. First, the probability of a clean Democratic victory in next week's elections in the US, which would include the White House and the Senate in a so called "blue sweep", is rising. This would mean a very material, not so say monstrous, fiscal stimulus through 2021 in the world's largest economy. A spectacular blue wave would also mean a lower risk of contested results in the weeks following the election night. As markets are starting to give up the idea of a stimulus package being inked before the elections, the economic data flow seems to indicate that the delay is manageable, due in particular to a high savings rate from the crucial US consumer in the recent months. The second factor we would highlight is our long-dated obsession of positioning: institutional investors are still on the defensive side, anxiously looking at any dip as the potential opportunity to put their cash at work. With a lower probability being attached to a chaotic November, the clock is ticking and the pressure is rising: they bought the little dip they had, as their most important risk is to miss a rally.

Our own positioning had been extremely active this year, and following last week's monthly tactical asset allocation committee, we are now simply invested. Our TAA displays a slight overweight in stocks compared to our long-term allocations, as the medium-term prospects, combining economic recovery and low interest rates, are too compelling to be underweight. However, we are also slightly overweight in cash and in gold: we still expect turbulences in the near-term and with year-to-date performances firmly in the green on our three profiles, we are in a situation which allows us to keep the options to seize future opportunities as well. We fund these overweight with a clear underweight in both Hedge Funds, which are having a difficult time with unpredictable markets, and Government Bonds, which provide neither return nor good risk mitigation, as everything is correlated. The 2021 scenario we are working on looks reasonably constructive, and actually reasonably agnostic to the results of the US elections. Whoever is in charge, we have both growth and monetary support ahead. A victory from Mr Biden will probably be the most globally market-friendly outcome, either with or without a full control of the congress, while Mr Trump being reelected could support volatility in the non US assets. In the meantime, the key risk remains a contested result, and the key difference in the instant reaction after a winner is clearly announced is in the leadership between US and Emerging Markets in our opinion. We are overweight in the latter.

The recent weeks have been an interesting backdrop for the launch of the multi-asset funds which replicate our strategy in ready-built portfolios. Staying within our bank, we extend our congratulations to Emirates NBD Private Bank who has been recognized internationally by the prestigious Private Banker International, with the "Outstanding NRI/Global Indians offering" award for 2019-2020. This is the latest of a long series of awards for our Private Bank but this extraordinary year makes this recognition feel even more special.

The week ahead will keep on being dominated by political headlines, primarily of course the US elections but also the Brexit talks, where the 15th of October doesn't look like such a hard deadline anymore. It looks like time has also come for discussions in the Azeri-Armenian conflict with a Russia-backed cease fire taking place today. Tensions remain elevated and in another part of the world, King Jong Un held a massive military parade, proudly displaying a

new ballistic missile designed to carry nuclear warheads to the US. This looks quite a risky statement at a time when the elections campaign is raging in the US. On a more peaceful tone, the Q3 earnings season has started and should bring a clear picture of the state of the corporate world. We will look for growth, resilience and forward guidance, and we cannot exclude spectacular news such as the game-changing transformation plan announced at IBM last week. On the data front, we will look at the ZEW, China trade numbers, and hope for a better second Presidential debate assuming it is not cancelled. The week will end with US retail sales and consumer confidence.

Stay safe.

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