



CIO OFFICE MORNING MARKET WRAP – Sunday July 12th, 2020. ALSO AVAILABLE ON ALEXA

Last week was another good one for global financial markets, with all major asset classes delivering positive returns, except Global Listed Real Estate. Emerging Market stocks clearly outperformed their developed peers, with respectively +3.6% and +1.5%. China was the key contributor, gaining an impressive +7.5%. and adding a cumulative \$2 trillion of market cap so far in 2020. The most important factor behind markets' performance is obviously the coronavirus.

At the region level, countries which have managed to contain the pandemic are obviously doing better, which explains why China outperformed Europe which outperformed the US last week.

At the sector level, winners from the crisis such as healthcare, essential goods and of course technology show dramatic outperformance, illustrated by the Nasdaq printing new all-time record high almost every day.

The GCC stock markets were only slightly up last week, with their sector mix being a headwind for the moment.

Global markets remain obviously concerned about the virus especially in the US where the number of infections hit another record. We reiterate that we do not expect a broad global second wave which would send all of us back home and freeze the economy again. The US will be able to contain what looks like an extended first wave rather than a clear second one, and local outbreaks around the world are inevitable but manageable.

We are much better prepared to deal with the Covid. Evidence can be found in how the UAE has managed the crisis, with one of the lowest number of deaths per million inhabitants in the world, despite being a global hub with high urban density. Actually, had all the countries done as well as ours, the global death toll would have been divided by 5. This gives us confidence in the fact that the virus can be handled. Having said that, if the probability of the global economy stopping again is low, the virus impacts consumer confidence, which is a clear threat to the crucial engine of the recovery, priced for a perfect trajectory by some markets.

This is where the US matters, as its consumption alone represents more than 10% of the world economy. The virus is not under control, and political risk is rising, between the Presidential campaign and geopolitical tensions. On the former, elections drive volatility but even assuming that Mr Biden will be elected, his published program doesn't look like a major threat to the economy – he is positioned in the center.

With regards to geopolitics, President Trump mentioned “severely damaged” relations with China, and their North Korea ally looks as unpredictable as ever. No doubt, verbal escalation will happen during an electoral campaign but pragmatically we don't think that any country can afford any damaging real confrontation. These are identified sources of volatility for the weeks and months ahead, and this is why our positioning is more defensive than a month ago, and why we favor emerging markets and quality growth sectors.

Actually, if we exclude China and Tech, risk assets are struggling to print new highs with a broad participation. The natural laws of physics add to potential mixed news on the virus and political uncertainty: bouncing from a rock-bottom level, the pace of the recovery cannot be faster than in its early stages. Its momentum will slow as naturally as a bouncing ball slows from the ground to its top.

The coming week will give us a clear picture of the Chinese recovery with the second quarter GDP being released on Thursday.

Retail sales will be released in Europe and Industrial Production in Europe, which will in our opinion confirm the East to West “First in First Out” dynamics. Crucially, the earnings season for the second quarter will also begin in the US with major banks in particular.

Stay safe.

MAURICE GRAVIER
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