



CIO OFFICE MORNING MARKET WRAP – Wednesday 13th of May, 2020. ALSO AVAILABLE ON ALEXA.

Volatility and risk aversion came back on markets on Tuesday, affected by several warnings. First, on the virus front, top health experts in the US administration, including Doctor Fauci, said it's too soon to relax restrictions and that reopening cities and states now may turn clock back on recovery. At the same time, regional Fed chiefs warned about the US economy, and several voices from Wall Street questioned the recent rally, including Goldman Sachs predicting a -18% loss on US stocks in 3 months.

As a result, the S&P 500 closed 2.1% lower yesterday, and safe bonds were sought after, with the 10-year treasury yield losing 4 basis points to 0.67%. There is actually nothing new. Given its timing in the pandemic, the virus hasn't peaked yet in the US but is crashing the economy – lifting the restrictions obviously implies accepting more infections. US cases are only decelerating but this is due to New-York, where the US epidemic started, while Florida or Texas are still deteriorating.

With regards to markets, nothing new either: most of hedge funds have been hit by the crash but were absent of the rally, which precisely was amplified by this bearish positioning. Finally, expressing a 3 months view on markets in the current context makes sense for the sell-side, to generate buzz and trading revenues, but doesn't provide much value from an investment perspective.

Our stance is unchanged, DM stocks are expensive which creates vulnerability but they are not an outright bubble, and short-term speculation is the last thing to do now. As we write, this morning, the risk-off sentiment is spreading to Asia, affecting regional stocks and international futures, as oil prices giving back some of yesterday's gains, still around \$30 for the Brent. There is however one exception: India stocks are jumping after Prime Minister Modi unveiled a 20 trillion rupees plan to support the economy.

This represents close to 10% of the annual GDP. He also said that the next stages of the lockdown will be announced on May 18th. Today we will listen to Mrs Merkel's update on the pandemic in Germany, as well as various ECB officials. We will get the weekly EIA oil data and the quarterly results of Cisco, Tencent or Sony. Markets should reflect the risk-off orientation of Wall Street, but again, there is nothing new and volatility is part of our landscape for long. To conclude on a positive note, the GDP for Malaysia in the first quarter is just out, with an expansion of 0.7% while the consensus was expecting a contraction of -1%. There is hope in Emerging Markets

Stay safe.

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