



## **CIO OFFICE MORNING MARKET WRAP – Monday July 13<sup>th</sup>, 2020. ALSO AVAILABLE ON ALEXA**

The second quarter of 2020 was one of the best ever, and Q3 shows a strong start. In July so far, none of the major asset classes we include in our framework is negative. Stocks from developed economies are already up +2.7% in July, which brings their current 2020 loss to only -3%. Even more impressive are emerging markets equities: led by China, they are up almost 8% in July alone and their 2020 performance has fully caught up with their developed peers.

Looking at numbers, it's hard to believe that we have just been through the most brutal economic contraction in history and that the number of global coronavirus infections has not peaked yet. Yet the market is always right: the economic recovery has started and Asia demonstrates that local outbreaks are manageable without full lockdowns.

Central Banks and Governments are respectively injecting and spending an astonishing number of trillions with a double impact: economic devastation is avoided, which supports a quick rebound, and asset valuations are boosted by ultra-low interest rates.

As you know, we cut risk in February but bought back during the crash and were fully invested during the following rally. We only reduced risk again earlier in June, now slightly defensive compared to our long-term strategic allocations, with however a clear preference for Emerging Markets and an overweight in Gold which work well so far.

China domestic stocks, as measured by the Shanghai Shenzhen CSI300 index, are competing with Gold for the best performance 2020, both up around 18%. We actually don't think that markets are overall crazily disconnected nor in a valuation bubble. They are expensive, which is where they should be assuming that the recovery follows a perfect trajectory and that interest rates remain extremely low.

We don't question the recovery which is a central part of our scenario, but we think that it may be uneven and slower than what markets currently price in. Behavioral factors are less supportive than one or two months ago: when all Wall Street experts were predicting an imminent crash, it was clear that positioning was not exaggeratedly bullish. The story is different now: there are still huge piles of cash waiting to be put at work by professional investors, but they will certainly wait for clear evidence of a compelling risk/reward, which means both upside potential, and less volatility.

For the latter, we may have to wait until the US elections at best, or the availability of a credible vaccine for the virus at worst, to see the risk regime of markets significantly change. In the meantime the summer may be hot and volatile.

With regards to upside potential, it is currently not only limited, but also unclear. The coming week will help us doing the math with the start of the Q2 earnings season. It is not just another set of numbers: Q2 is the most affected quarter for the global economy, both numbers and management guidance will matter a lot to have a sense of future earnings. It starts with the banks, which are interestingly the link between Wall Street and Main Street: JP Morgan, Goldman Sachs, Wells Fargo or Citigroup will release their numbers in the coming days.

This week also, China will publish a probably good GDP growth (yes, growth, expected at +2% annualized and our guess would be more) for the second quarter. This may exacerbate the anger of the US in general, and of President Trump in particular, against the Red Dragon, especially as the presidential race accelerates and as the virus is not under control yet in the US.

As we write this morning, the early trading hours in Asia sessions are unambiguously in the green: Japan leads with a 2% gain, followed by Hong-Kong, China and Australia all up 1% or more. Gold is steady at 1803\$. Oil slightly retreats less than 1%. The OPEC+ is considering gradually easing oil output cuts from August, in a move that resembles the Fed “tapering” and confirms the idea that the cartel is to some extent the central bank of oil. Stay safe.

Stay safe.

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