



**CIO OFFICE MORNING MARKET WRAP – Thursday 14th of May, 2020.
ALSO AVAILABLE ON ALEXA.**

Risk aversion continued weighing on global markets Wednesday. Global stocks fell 1.3% with the US closing lower. More prominent Wall Street figures went vocal about the markets being overvalued, and the Fed chairman outlined a pessimistic scenario. On the former, there is nothing new, as our readers are well aware. Markets are ahead of our own year-end fair values, for weeks, but it is obviously scenario-dependent. That's why the latter matters: Jerome Powell highlighted uncertainty and the risk of mass bankruptcies and unemployment.

He urged congress for additional fiscal support, but also tried to close the door to the possibility of negative interest rates in the US, despite some derivatives anticipating it. Markets didn't appreciate both the diagnostic and the suggested remedy, which also explains why Treasury yields remained steady instead of being pushed lower by the "risk-off" sentiment. Inflation numbers are obviously depressed. The April Producer Price Index in the US was negative -1.2%, with a

significant impact from the drop in energy prices. The price of Brent crude oil moved down 2% yesterday to \$29.4 and is steady this morning in Asia. The EIA reported the lowest crude input by US refineries since 2008, but also said that inventories slightly declined.

Gold was the most resilient asset yesterday, and even bitcoin, after its “halving” technical milestone, did well. To find economic hope, we have to look East: the unemployment rate in Korea in April is only 3.8%. Some infection clusters are reappearing but it looks like they are properly addressed and that there’s nothing like a big second wave affecting Asia, where it all started.

Of course, markets don’t make a difference in their current “risk-off” configuration where volatility spiked, leaving no room for differentiation. As we write this morning, Asia stocks drop everywhere, though declines are not as severe as in the West. We have a long-standing preference for Emerging Asia, featuring a valuation discount on better long-term fundamentals. Today we will get inflation, unemployment numbers and a couple of corporate results in Europe.

Stay safe.

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