



CIO OFFICE MORNING MARKET WRAP – Sunday June 14th, 2020. ALSO AVAILABLE ON ALEXA.

Last week was clearly negative for risk markets. The rally so far was fueled by a combination of two factors: 1. a constant stream of incremental good news on the pandemic, on economic reopening, and on the policy responses and 2. A collectively defensive positioning from investors who were pushed to buy by the fear of missing out the rally, especially before the end of the quarter. This didn't work last week. Some questions were raised on the very good US job reports of May. The Fed policy meeting didn't add to an already formidable monetary support. More importantly, there was an increase in COVID-19 infections globally and especially in some US states, which rejuvenated anxieties about a possible second wave of the virus.

As a result, global stocks were down 4.5% over the week, with the US alone losing 6% in one day, Thursday, before rebounding 1.3% on Friday.

GCC stocks were almost unchanged over the week, and Emerging Markets in general fared better than their Developed counterparts but were still negative -1.5%. This was the case for all risk assets, including cyclical commodities.

The price of Brent crude oil closed the week just below \$39, its first weekly loss since late April. Following a risk-off pattern, Gold printed a +2.7% weekly performance and the safest segments of fixed income were sought after. The US 10 year Treasury Yield ended the week down, at 0.71%.

We held our monthly tactical asset allocation committee last week on Tuesday, and we took the decision to start reducing risk. We cut equities to underweight across profiles, including our long-term conviction Emerging Markets now close to neutrality. We reduced risk but didn't turn outright defensive as we also added to Corporate High Yield bonds in our Moderate and Aggressive profiles. We also marginally added to cash, and kept our overweight in both Emerging Market bonds and Gold.

Our scenario hasn't changed: we are not totally surprised to see a rise of infections as a natural consequence of restrictions being lifted. We are not assuming that a material second wave will happen, and we would be very surprised to see radical responses, i.e. renewed lockdowns and the economy switched-off again.

Our scenario remains for the pandemic to be under control, leading to a recovery helped by an inundation of liquidity and very low interest rates. We reduced exposure because this scenario was, and still is, fully priced-in by some markets, not because we think it's not going to actually happen. We should see opportunities to come back down the road.

In the news, the WHO warned the coronavirus outbreak is just starting and will wreak more havoc. US cases rose at the fastest pace in two weeks, with Florida the hot spot and Brazil now having the second-highest death count in the world. Maybe more worrying is the fact that Beijing shut down the city's largest food market as well as 11 residential districts after an infection cluster erupted.

Next week, we will listen to Fed officials delivering speeches, especially Chairman Powell who will without a doubt try to leave open the possibility of even more liquidity injections. China Industrial Production and US Retail Sales will be the key data to watch.

Stay safe.

MAURICE GRAVIER
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