



CIO OFFICE MORNING MARKET WRAP – Tuesday July 14th, 2020. ALSO AVAILABLE ON ALEXA

Last week was excellent on financial markets, and this one started well on global markets before the mood turned negative in the late hours of the US session. Global stocks rose 0.6% on average but US shares reversed their trend to close 1.1% lower, and -2% for the Nasdaq. Recurring concerns over the economic impact of rising coronavirus cases combined with fresh tensions with China to chill risk-appetite. The US rejected China's claims in the South China Sea, opening another line to the long list of geopolitical topics, after trade, Hong-Kong security laws and of course the handling of the pandemic. On the virus front, California increased restrictions, closing most of dining and bars as well as gyms.

As we write this morning, Asian markets follow the US lower, led by Hong-Kong, always very sensitive to geopolitics, China, giving back some of their recent tremendous gains, and Japan, down 1%. Oil futures are also down 2% at \$41.8 for the Brent contract. The

upcoming OPEC+ meeting is expected to roll out plans to progressively reduce the production cuts from the end of the summer. Stock markets were flat in our region as measured by the MSCI GCC index.

The Dubai government announced a third fiscal stimulus package worth AED 1.6bn on Sunday to support businesses in the Emirate, and especially improve their liquidity positions through the waiving of various fees, deposits and guarantees.

With regards to economic data, Chinese trade numbers are just out and they are much better than expectations. Both imports and exports are up year-on-year in June, the biggest surprise being actually the imports, up 2.7% while the consensus of economists expected a 9% drop. This bodes well for exporting countries especially in Asia and Europe and is another evidence that China is back to business at full speed.

We favor Emerging Markets across asset-classes precisely for the secular drivers of their growth. This rise of imports also softens the trade balance which was positive by “only” \$46bn in June compared to 63 in May: China is obviously not just the factory of the world anymore, but a key contributor to global and regional growth. We will get their Q2 GDP and Retail Sales numbers next Thursday morning.

Today we’ll look at Germany’s July ZEW survey on business sentiment, and some of us may listen to French President address on Bastille day. However, this week is more about micro than macro: the earnings season has started and the good results of Pepsico yesterday tend to confirm our intuition that companies have set expectations so that they will at least meet them.

Guidance will matter, especially after a third of global listed companies simply withdrew any clear target for the year during the coronavirus crisis. Major US banks such as JP Morgan and Wells Fargo will give a previous information of what happened during Q2 with regards to corporate loans and consumer behavior in particular.

Stay safe!

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