



CIO OFFICE MORNING MARKET WRAP – Tuesday September 15th, 2020. ALSO AVAILABLE ON ALEXA.

Monday's market session was positive, supported by progress on a vaccine and by the announcement of large M&A deals. Almost all major asset classes were in the green, with stocks gaining more than 1% across developed and emerging regions. Our regional markets were no exception, with Dubai and Abu Dhabi up 0.2% on average yesterday. The current levels of oil prices remain a headwind, but it is worth noting that the Saudi Tadawul All Shares Index is now delivering a slightly positive total return in 2020. In the US, the S&P500 took yesterday some distance from its 3300 technical support and the Nasdaq outperformed. Apple is holding its September product event today and certainly hopes to remain the world's most valuable company, after Saudi Aramco regained this status on Sunday. Talking about records, September is set to be the most active month of the year in terms of M&A activity, with \$146 billion worth of deals announced so far. No doubt, funding is abundant, cheap, and growth is scarce: acquisitions are tempting – this is a tailwind for stocks, but historically mega deals are not always creating value.

On a more fundamental note, China released a brilliant set of economic data this morning. Its retail sales and industrial production for August both beat expectations. The most

impressive measure is probably the YTD evolution of industrial production, which, compared to the first 8 months of 2019, is now up 0.4%. The Chinese growth is definitely spectacular, due to fiscal stimulus but also to strong exports, helped by their leadership in personal protection equipment. Fixed-asset investment kept on sliding, but by only 0.3%. It's good to remember that China is an exception among major economies when it comes to quantitative easing: money is not free there. This also explains why the valuations multiples of its stock market haven't skyrocketed, which can be seen as a positive for future returns. Good economic numbers and no liquidity inundation also supports the Yuan which, at 6.78 for a dollar, is at its highest level of 2020. As we write this morning, stock markets in China and Hong-Kong are gaining 0.5%, but they are down 0.5% in Japan.

China and the European Union are holding a summit through video conference, seeking to forge an investment deal, despite relations having been strained by controversies around coronavirus information and Hong-Kong security law. Having said that, the two regions are crucial for each other, and the current tensions between the US and China could be a window of opportunity for Europe, despite divergent views on human rights, for example. Fighting "modern slavery" is the reason given by the US to ban some hair products, apparel and computer components from China groups yesterday. At the same time, Oracle confirmed it was picked to bid for TikTok's US operations, but the deal will not happen without clearing from both countries, which doesn't look obvious.

The key catalysts for markets are anyway elsewhere: US politics and the virus. On the latter, only a credible vaccine would be the real game changer, as the global number of infections is approaching 30mn, with 3 countries alone, the US, India and Brazil, cumulating more than half of it. On the former, the polls are giving a lead to Mr Biden but the key risk is to have to wait for a clear result well above November 3rd, in a social distancing context and as Mr Trump is pointing out potential frauds with mail-in voting. The deadline for each state to certify its results and finalize electors is more than 30 days after the election itself. Markets would not like at all a month of uncertainty. The Fed's monthly FOMC meeting will start today, with the news conference scheduled for tomorrow. We will look at the ZEW survey this afternoon to gauge in growth expectations

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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