



## **CIO OFFICE MORNING MARKET WRAP – Tuesday June 16<sup>th</sup>, 2020. ALSO AVAILABLE ON ALEXA.**

Monday's session on international markets went through an intraday V-shaped drama, from a risk-off wave to a rise in the end. As we write for long, one of the key conditions for the rally is to be fed by incremental good news. Last week didn't provide any, and the fears of a second wave of the pandemic triggered a sell-off which weighed on international markets until the late trading hours of Wall Street.

Then the Federal Reserve, again, reversed investor sentiment with a set of new measures. The US Central Bank will begin buying individual corporate bonds from today under his dedicated emergency lending program, called Secondary Market Corporate Credit Facility, which had so far only purchased ETFs. The Fed has defined its own corporate bond universe and will buy the individual securities directly from the market.

Importantly, it means that the universe of bonds being bought is certainly wider than initially thought via ETFs which replicate standard indices. The announcement was not expected, and as often with the Fed, its timing was perfectly calculated, at the beginning of a panic episode. The Fed also launched another of its nine emergency facilities, this time directed at non listed, private small and mid-sized businesses. The Main Street Lending Program will be

administered by the Boston Fed and will start purchasing loans very soon to provide a financial relief to America businesses and also non-profit organizations. This is not helicopter money but it may feel quite the same. This wasn't the only good news from the US yesterday. The June Empire Manufacturing Survey surprised strongly to the upside, with its new orders and shipping components surging. Finally the Trump administration said it is preparing a \$1 trillion infrastructure proposal as part of its stimulus measures.

To sum it up, the markets expressed their needs for incremental good news and policy makers delivered them immediately. Due to the timing of the releases, most of international markets ended their sessions lower, including our regional markets, with the Dubai DFM down -1.9% and Abu Dhabi more resilient at -0.2%. The US obviously got the news in time and closed 1% higher, as well as oil, with the price of Brent crude gaining 2.5% to \$39.7. More significant are markets this morning in Asia.

The US futures are adding another 1.5% while Asia stocks are jumping: +4% in South Korea, despite rising tensions with the North, +4% in Japan, where the Bank of Japan also gave its contribution to the need for incremental good news: its virus- response special program will be increased from 75 trillion yen to 110 trillion, i.e. another trillion dollars. Don't fight the Fed is definitely the most important principle of the current times, and yesterday's key topic, the fear of a second wave, has been quickly forgotten.

The global number of cases has just reached the 8 million mark, with Latin America, South Africa and India showing the largest increases in absolute and in percentage, above 3% daily. New cases are also rising in the US but at a slower 1% pace. Saudi Arabia has seen a recent acceleration, prompting more restrictions. The UAE maintains its excellent numbers, among the best in the world. As you know we have started to reduce risk in our recommended allocations last week. We actually don't forecast a second wave of infections nor renewed lockdowns. We simply expect volatility because markets are priced for a perfect situation which may ultimately happen, but not without being questioned. We are impressed by the commitment of authorities to avoid any sell-off in financial markets, with an instant response as we saw yesterday, but we stick to our fundamental view. Our allocation includes High Yield bonds in two of our profiles, precisely to benefit from the central bank's policies. We will have more of the Fed today with Chairman Powell delivering his policy report to Senate at 6pm. Before that we will get UK unemployment numbers and Germany ZEW survey.

Stay safe.

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