



## **CIO OFFICE MORNING MARKET WRAP – Sunday 17th of May, 2020. ALSO AVAILABLE ON ALEXA.**

Last week was volatile and overall slightly negative on financial markets, with global stocks down 2%, commercial real estate tumbling, and Gold outperforming. As we constantly wrote, markets had been quick at discounting a mid-year return to growth, and as the Q1 earnings season ends, influential figures from Wall Street voiced concerns on valuation.

At the same time, The Fed delivered a downbeat assessment of the outlook but tried to close the door to the possibility of negative interest rates, despite very low inflation numbers. Against such a backdrop, some form of consolidation should not come as a surprise. Indeed, we can add that economic data was still terrible in the West. Retail sales in the US dropped more in April than during both the Great Depression and the World War II.

Having said that, economies are being restarted in almost all European countries and in a majority of US states, except the most affected such as New-York. On the positive side, numbers from China keep on showing a spectacular

rebound. April industrial production was 1.7% higher than a year ago, and retail sales numbers are close to fill the gap versus December levels. This might explain why last week, Emerging Markets did overall better than Developed Markets, and this comforts our overweight position in Emerging Asia across asset classes. We keep on thinking that the global rebound could be starting this month, and keep on thinking that it is priced-in by developed markets, which creates vulnerability and volatility ahead.

Corporate news today are quite grim. JC Penney is filing for bankruptcy, while Fiat seeks a government-guaranteed loan of more than 6 billion Euros. Governments are stretching their budgets: in the US, the 12 months deficit at the end of March is almost reaching the \$2 trillion mark, twice the level of the previous period. Argentina is restructuring its debt again, in a crisis which started before the coronavirus, and negotiating with its largest international creditors. The country had defaulted eight times in its history, and gone through multiple crisis so it's difficult to think that professional asset managers such as Fidelity, Blackrock or Amundi didn't know the risks they were taking.

Tensions also remain elevated between countries. The World Health Organization's governing body will meet on Monday in Geneva. China will be challenged on its handling of the virus, but also on Taiwan's status. At the same time, Taiwan Semi-Conductors announced an intention to build a production facility in the US, which of course upsets China, especially as the US moved to block global chipmakers from supplying Huawei. In Europe, the UK has surprisingly confirmed it rules out an extension of the Brexit transition period. The idea of successfully negotiating a comprehensive deal in the next 6 months looks very optimistic. In the week ahead we will have more indication on May activity with the flash PMIs in the G4, we will follow the political negotiations in the US for another massive stimulus plan, and keep an eye on the risk of escalating tensions with China.

Stay safe.

**MAURICE GRAVIER**  
Chief Investment Officer  
Wealth Management  
Emirates NBD

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