



CIO OFFICE MORNING MARKET WRAP – Monday August 17th, 2020. ALSO AVAILABLE ON ALEXA.

Last week, defensive assets underperformed, with gold down 4% and a slight rise in interest rates affecting the fixed income asset class. Equities were overall positive, especially in Developed Markets. This happened despite the failure of the US Congress to agree on a sizable fiscal stimulus package, and despite a continued escalation in the US/China tensions. The six-month review of their Phase 1 trade deal, which was due to happen this week-end, was postponed without a clear reason, as the battle is raging around TikTok and potentially other companies.

Fortunately, there were also good news on the geopolitical front, with the historic agreement between the UAE and Israel to normalize their relations. Our domestic markets reacted positively to the news yesterday, with Dubai and Abu Dhabi indices gaining respectively 1.3% and 0.6%. The week that just starts on international markets will be less rich than the previous ones in terms of economic and corporate data. However, as the summer end approaches, several important issues will have to be solved in order to sustain the current rally.

The re-election campaign of the US President is not simplifying the situation on both the relations with China, a landmark topic for the current administration, and on gathering a consensus on a massive fiscal stimulus plan which is expected, if not priced in, by financial markets. For the time being, Washington is busy working on a legislation on mail-in voting which may indeed be of importance in a time of pandemic.

On the macro front, as retail sales and consumer confidence are decelerating, manufacturing activity is expected to be the next to pick-up. The just released quarterly GDP from Japan was below expectations with an annualized -27.8% contraction, the worst since 1955. With regards to geopolitics, the Middle-East is an exception in a world of tensions: between Turkey and Greece in the Mediterranean Sea, in Belarus with massive protests after the presidential elections, and in Asia where Taiwan just signed an agreement to buy American F16 fighter jets, upsetting China.

We also don't know how the pandemic itself will evolve when the summer holidays end. Our scenario was and still is for volatility to spike, and it may well happen in the coming weeks, before the two important catalysts which are respectively the US Federal Reserve presenting their new framework in September, and the results of the US elections being known in November. Bottom line, we expect turbulences but are not overly bearish: the recovery has started, we are learning to live with the virus, and there are still piles of cash sitting in the side-lines of institutional investors, ready to be put at work at some point.

In the meantime, the early hours of trading in Asia are mixed today. Chinese stocks are up 1.5% as the Central Bank injected the equivalent of more than 100 billion US dollars into the financial system to support banks. The dollar continues to weaken against its major counterparts. Gold is stable after last week's drop, but further consolidation is possible given the amounts of speculative positions in place. We stay overweight. Japan and Australia are currently in the red, but US futures and the price of Brent crude are both slightly up, before an OPEC+ meeting scheduled this week, and as more and more oil companies are revisiting all their projects, questioning the relevance of exploiting some assets. Supply restructuring is ultimately not bad for prices. In the week ahead, we will read the FOMC minutes on Wednesday and follow the weekly US jobless claims on Thursday before getting Euro area PMIs on Friday. Quarterly earnings this week interestingly include Chinese internet giants Alibaba and JD.com.

Stay safe.

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