



CIO OFFICE MORNING MARKET WRAP – Thursday September 17th, 2020. ALSO AVAILABLE ON ALEXA.

“Buy Jackson Hole, sell the FOMC”: markets loved the August announcement of the Fed’s new tolerance towards inflation, but they didn’t like its official confirmation yesterday after the monthly policy meeting. As expected, there was no actual change in policy: the Fed expects to stay accommodative until inflation averages 2% over time, and factually, their updated projections predict rates will stay at zero through 2023. At this time, inflation should be at 2% and unemployment close to 4%. Interestingly, the Central Bank also updated their forecast for 2020 GDP contraction from -6.5% to a much more reasonable -3.7% with also a gradual improvement in the unemployment rate to 7.6%. Indeed, the Fed also highlighted uncertainty and cautioned pace of recovery will likely slow, but overall there was nothing really new.

Fundamentally, mediocre growth is still growth, and combined with ultra-low interest rates for long, this shouldn’t be seen as a negative for risk-assets, especially

as Jerome Powell also said that the Fed is not “out of ammo”. Alas, as we highlight for long, markets are already pricing-in this scenario, and the short-term is in the hands of sentiment and versatile day-trading. As a result, US stock indices reversed their gains of the day to close down -0.5% for the S&P500 and -1.2% for the Nasdaq. It is difficult to believe that some market participants were rationally expecting further stimulus to be announced, but the current impasse in Washington on the fiscal side may have generated some impatience. The need for more help for consumers was highlighted by the August US retail sales which were below expectations – but still up, despite the weekly unemployment benefits having expired.

Due to the timing of the Fed press conference, global stocks were only down -0.2% yesterday with Europe and Japan still up. Interest rates were slightly firmer on the long end as there was no new specifics on bond purchases from the Fed, and the trade weighted dollar moved down 0.2%. The spectacular move was in energy: the price of Brent crude oil closed with a gain of 4.4% to \$42.30. US inventories shrank by 4.39 million barrels last week, a weak dollar helped, and the UAE signaled it will reduce its output to make up for exceeding their quotas recently – which didn’t weigh on our domestic stock market, up 0.35% yesterday.

As we write this morning, the morning session in Asia is following the US. Regional stocks drop with US and European futures. Japan is down -0.6% after the Bank of Japan left their policy unchanged – next up today are Bank Indonesia and the Bank of England. China, Korea and Hong-Kong are all losing 1% or slightly more. Oil drops back 1%, based on future contracts, and Gold is down 0.4% to \$1940. No doubt, when a Central Bank disappoints, even unrealistic expectations, everything is down.

This is however not at all a change in direction, and we see it as just another expression of the natural turbulences of a time combining elevated valuations with high uncertainty. No reason to panic, and any material correction could be an opportunity to add risk just when and if day traders panic. The true catalyst remains a virus, but in the meantime US politics are key. The White House had a clear message to the US Congress yesterday: Republicans should increase their offer in talks with Democrats in order to ink a stimulus deal within the next 10 days. On the other hot topic, relations with China, the approval process of the TikTok/Oracle plan has started, but President Trump said that “conceptually”, he doesn’t like the fact that Chinese ByteDance remains the majority shareholder of the joint company.

The US also plans to sell major weapons systems to Taiwan, another move that Beijing should not like. To stay on international tensions, Boris Johnson made a concession on his highly controversial –and arguably law-breaking- Brexit plan yesterday by granting the House of Commons a veto right. The move is clearly designed to boost the chances of the plan to be passed in parliament, it is of course not a concession to the European Union. No doubt, history shows that the only way to negotiate with the EU is to be tough, but the deterioration has gone a long way. The context is not the same now that Europe is already facing a deep recession, allowing countries to deepen their deficits with full support of the ECB and even understanding from Germany. The probability that the EU could simply accept the additional pain of a hard Brexit is arguably higher than a year ago.

Today the OPEC+ will hold an online meeting dedicated to monitoring output and quotas and we will have a look at Euro Area new car registrations. No major economic data is expected this week, but Friday is a major quarterly expiration of derivatives and could see some market volatility.

Stay safe.

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