



## **CIO OFFICE MORNING MARKET WRAP – Tuesday 19th of May, 2020. ALSO AVAILABLE ON ALEXA.**

Euphoria is the right word for yesterday's session on global markets. An experimental vaccine from US biotechnology firm Moderna Therapeutics showed signs that it creates an immune-system response, from the small, first study which was made with human volunteers. The company made it clear that it is in early stages, and took the opportunity to raise equity to fund its activity, but highlighted that the data "couldn't have been better".

Markets' reaction "couldn't have been better" as a vaccine would simply solve the pandemic and unlock the economy. Global stocks rose 2.7%, with Europe up 4% and the US 3.4%. The US 10-year Treasury Yield increased 8 basis points to 0.73%. Finally the price of Brent crude oil literally jumped 9.5% to \$35.4. As we write this morning, Oil extends gains in Asia and the WTI June future contract's expiry today should be much happier than last month, when May contract traded at negative prices for the first time ever.

Indeed, the June contract is now at a small premium to July, suggesting less pressure on storage. Asian stocks are also obviously positive this morning, with Japan, Korea and Hong-Kong up close to +2% as we write. Chinese stocks are not as euphoric. First, their year-to-date performance is far from the devastation of other Asian indices. Additionally and more crucially, China is under pressure: from the WHO and a coalition of countries questioning their handling of the outbreak, and obviously from the US where President Trump is escalating his rhetoric against China, 6 months before the elections.

After heavy restrictions put on Huawei's semiconductor supply, a report said that Nasdaq would tighten its rules, affecting Chinese companies. We don't need a trade war now. Nevertheless, Baidu, one of China's leading technology company, surprised markets this morning by announcing spectacular quarterly sales, much better than the consensus' expectations. Now let's quickly recapitulate the situation. February was a month of denial, and we had reduced risk. March was a month of panic and it was relatively easy to buy, we did. The rebound happened in April, fuelled essentially by the policy response, and we stayed invested.

Now, May is the time for confirmation that activity picks up, now that most of outbreak-related restrictions have started to be materially eased. Markets are already priced for this improvement, and we are now neutral on risk. The only reason why we are not outright defensive was the depressed sentiment and positioning, as illustrated again last week by the choir of Wall Street superstars predicting a crash.

No doubt, a vaccine being quickly available would dramatically enhance visibility. But it would not by itself generate the magic additional economic growth that yesterday's rally suggests, especially as the news was just early results of one experimental vaccine. This illustrates that negative positioning is very powerful, but also confirms that the short-term is unpredictable. We had comfort in not being underweight risk because the most cyclical parts of the markets, like Oil, industrials, financials for example, were still not pricing a recovery. Should it change, or in the absence of confirmation of a growth pick-up, it could be time to "sell in May". Today, we will get the Euro area Zew survey, which was before Germany and France agreed to create a 500bn EUR fund to help member states face the pandemic. We will look at Russia GDP for the first quarter, as well as at Walmart earnings. The June future contract on WTI will settle and last, but not least, Fed's chairman will deliver a speech and certainly support more fiscal support while resisting the idea of negative rates.

Stay safe.

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