



CIO OFFICE MORNING MARKET WRAP – Sunday July 19th, 2020. ALSO AVAILABLE ON ALEXA

US equities in the five days to Friday capped off a performance once more at odds with harsh reality. Even as the United States both Thursday and Friday reported record numbers of daily virus cases, markets were higher for a third consecutive week, with industrial stocks up 2.3% and the S&P500, +1.2%, outperforming the Nasdaq, down 1.1%. It is striking that the US accounts for just over 4% of the world population but still a quarter of confirmed cases globally. It should come across as far less surprising that president Trump's approval rating keeps on falling, with 60% of Americans disapproving of how he has been handling the epidemic, according to a latest poll, and Mr Biden now enjoying the backing of 52% of voters as against 37% for Mr Trump.

Elsewhere stocks were mixed, European equities gained 3% on hopes for new stimulus programs, but EM stocks lost more than 1%, dragged down by heavy profit-taking in mainland China.

US long-dated Treasury yields were marginally lower, while gold closed at an almost eight-year high boosted by sliding real rates as inflation expectations continued to edge higher. Comforting news flow on earnings and progress on vaccine buoyed investors' mood. The major US banks, JPMorgan, Bank of America, Morgan Stanley and Goldman Sachs beat expectations on higher trading revenue, although they set aside billions to handle loan losses. Healthcare stocks Johnson & Johnson, Abbot Laboratories and United Health also delivered results above consensus.

Investors' darling Netflix on the other hand underwhelmed fans of the stay-at-home theme announcing disappointing guidance. The bar is set pretty low for US equities to over-deliver in Q2 given an earnings growth projection of -44%, the biggest drop since the fourth quarter of 2008.

Moderna announced that its coronavirus vaccine generated a "robust" immune response and a report raised expectations for Astra Zeneca and the University of Oxford to be soon publishing an encouraging update on their vaccine. Economic data gave less reason for cheerful celebrations.

Although US Retail Sales were better than expected, the Fed Beige Book, a nationwide survey which offered a sneak peek into early July, underscored labor market fragility on virus resurgence. Jobless claims remaining elevated reinforced the message alongside deteriorating University of Michigan consumer sentiment. The mini fiscal cliff confronting Americans at the end of July, when enhanced unemployment benefits are set to expire, will not help market sentiment either. Ex Fed chair Janet Yellen expressed concern and said that allowing benefits to lapse would lead to a "catastrophe" for the economy.

In China macroeconomic data confirmed a V-shaped recovery underway, with Q2 GDP growth at 3.2%, but retail sales trailing forecasts and suggesting an uneven recovery. This set the stage for a buy-the-rumor and sell-the-news approach, which saw heavy profit taking across the EM front. Tensions between the US and China continued to simmer, with the United States ending Hong Kong's special trading status and US carriers back in the South China sea following Mike Pompeo's statement that China's aggressive claims on the waterway are unlawful. China said that it would sanction Lockheed Martin, the producer of top fighter planes, after the US government approved arms sales to Taiwan. Stay safe.

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