



CIO OFFICE MORNING MARKET WRAP – Wednesday August 19th, 2020. ALSO AVAILABLE ON ALEXA.

Global markets were mixed and divergent yesterday. Pushed by retail traders relentlessly buying tech shares, US stocks gained 0.2% and hit a record, closing slightly above their previous, pre-pandemic record. Other developed markets were down, with Europe falling 0.6%, and Emerging Markets gained 0.3% on average. The US Dollar continued its downward trend and is at its lowest level in 2 years versus its trade-weighted major counterparts. Interest rates were lower by a couple of basis points, and the price of Brent crude oil moved down 0.7% to \$45 after US gasoline stockpiles rose.

The situation hasn't evolved dramatically on the virus front. The number of infections just crossed 22 million globally, of which 14 million have recovered. Numbers are decelerating but still growing, with the American continent being the clear epicentre, followed by India. The good news is that the fatality rate is decreasing and that overall we have learned to live with the virus without freezing economic activity. However, after the initial bounce from the lockdown period, policy support remains crucial for the following quarters, especially in the world's largest economy.

This is where the US Presidential campaign doesn't make things easy. Republicans and Democrats still haven't agreed on the next round of pandemic relief, with considerable areas of disagreement, especially weekly stimulus checks and assistance for local and state governments. On paper, the Democrats demand a total of 3.5 trillion while the Republican stick to a 1 trillion plan. Some form of compromise becomes urgent and it could mean a smaller package with immediate effect, and another set of measures being delayed after the November elections.

In the meantime, pressure only increases in the geopolitical arena, which can also be linked to the current electoral times. A new sanction against China is announced every day. After Monday's extremely tough measures to prevent Huawei to use any US technology even at the component level, the US administration encouraged yesterday university endowments to divest from Chinese holdings as more measures limiting listing of Chinese firms and maybe even holding Chinese shares could be decided. Mr Trump said that he currently "doesn't want to speak with China". The US is also considering additional sanctions on Venezuela which could limit further their ability to sell oil. The world is definitely in a delicate period, as also illustrated by the forced resignation of Malian President yesterday after part of the army turned mutinous.

To sum it up, uncertainties are rising at a time when many key markets have recovered to pre-pandemic levels, through pure multiple expansion and fuelled by retail trading activity. As we write, Asian markets are overall unchanged. Chinese stocks are down 0.5% due to US pressure, but South Korea, Japan and Australia are slightly higher. Hong-Kong is closed for the morning due to a hurricane. Brent prices are not benefitting yet from the possibility of Venezuelan oil to be restricted, but the OPEC+ will meet today. Gold sees profit taking, down 0.5% and below \$2000 an ounce again. Today we'll get the minutes of the FOMC meeting and market participants will look for hints on their new framework to be communicated in September. The weeks between now and then could feel like months on financial markets.

Stay safe.

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