



CIO OFFICE MORNING MARKET WRAP – Thursday August 20th, 2020. ALSO AVAILABLE ON ALEXA

Let's start with a snapshot on the current landscape. Global financial markets are priced for a perfect situation: a smooth recovery associated with very low interest rates. We have little doubt in both, but do not think that the trajectory of the recovery will be as perfect as markets currently imply. Valuation levels leave no room for disappointment and even for questions.

Questioning the outlook was precisely the message from the Fed FOMC minutes released yesterday: the virus is not under control yet, fiscal support is fading and a robust US economic growth in the second-half of the year is certainly not a given. No doubt, central banks in the world will keep on providing extraordinary support and the Fed itself confirmed working on a new framework which could be communicated in September.

But this is only one part of the equation: at the current levels, markets need to see the growth they are pricing-in, and 2021 is only 4 months away. While an agreement on a stimulus package is still not reached in Washington, Sino-American tensions are now escalating on a daily basis: the US administration is targeting most of Chinese technology leaders, and it announced ending three special pacts with Hong-Kong about taxes and extradition. No surprise then that US stocks closed lower yesterday evening, reversing the previously positive trend.

Our domestic markets in particular had printed a fourth positive daily performance, up more than 1% in both Dubai and Abu Dhabi. The draft communique from the latest OPEC+ meeting signals a focus on compliance with the output targets rather than any complacency on demand. This is undoubtedly a wise approach for the oil market but another indication of caution on the outlook. Before the Fed minutes were released, Apple touched the astonishing market capitalization of 2 trillion US Dollar – the share price has roughly doubled since its March, and its total value is now comparable to the entire UK stock market.

As we write this morning, the cyclical concerns are palpable in Asian markets. Equity wise, regional indices and international derivatives are both under pressure in a broad-sell off. China and Korea are down -2% while Japan and Western futures are losing 1%.

In a typical risk-off mood, safer assets such as Treasuries, Gold and even the US Dollar are sought after, reversing the weekly trend so far. Brent crude oil futures are down but hold the \$45 mark. This may be the turbulences we were expecting since the beginning of the summer. We reiterate that any material correction should be an opportunity to add risk.

Anyway, the short-term is always unpredictable, and even more so when they are driven by behavioral factors. Later today we will get results from Chinese internet giant Alibaba group and look at US weekly jobless claims.

Stay safe.

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