



CIO OFFICE MORNING MARKET WRAP – Thursday 21st of May, 2020. ALSO AVAILABLE ON ALEXA.

There was a wind of optimism Wednesday on financial markets. Global stocks added almost 1%, led by US shares up 1.8%. The US 10-year treasury yield increased 2 basis points to 0.71% and the price of Brent crude oil jumped again by almost 5% to \$36.28. While the rally since March has been dominated by growth segments such as tech and healthcare, it is now broadening to cyclical sectors.

Indeed, consumer confidence in the Euro area started rebounding in May, economies around the world are increasingly reopening without evidence of a material second wave of infection. By contrast, another wave of policy support is not to be excluded: Turkey could lower its rates for the first time this year today, and the Fed's minutes released yesterday were vague enough on the outlook to leave the door open for more action, while stating the need for more fiscal support.

Markets are increasingly comfortable with the idea of a broad-based rebound starting in May, and they rally because of a depressed positioning, and against the bearish predictions which are actually part of the underlying negative sentiment. Having said that, the recovery, which we firmly believe in, will not happen in a straight line, and

as the most cyclical segments are starting to turn more optimistic, any disappointment in the short-term could have more consequences. For example, expectations for the market PMIs released later today are high, a jump from 14 to 27 in the Euro area and from 27 to 33 in the US.

More crucially, geopolitical risk is back, which is, let's face it, a major concern and a terrible timing. The US administration is raising their blaming game on China. Yesterday, the US Senate passed a bill that could bar some Chinese companies from listing on American exchanges. Companies would have to certify that they are not under the control of a foreign government.

Less than 6 months before the US election and in a world traumatized by a virus naturally associated with China, pressure is only increasing and won't probably abate. This helps understand why Asian markets in their early session do not show any euphoria as we write, despite the US rally yesterday.

Stay Safe.

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