



## **CIO OFFICE MORNING MARKET WRAP – Monday August 24<sup>th</sup>, 2020. ALSO AVAILABLE ON ALEXA**

The summer of 2020 has been like no other before. For once however, last week looked a bit like holidays with limited variations on global financial markets. There was indeed only 60 basis points between the worst asset, Gold, losing -0.2%, and the best, Developed Market stocks, gaining 0.4%. Within equity markets, two regions stood out. The US printed its 4th consecutive weekly gain, even if the last one was modest.

Closer to us, the GCC markets were among the best in the world, up 2.4% over the week, led by the UAE: both Dubai and Abu Dhabi gained more than 3%, supported by a combination of geopolitical achievement and potential positive corporate developments. It is also interesting to note that Chinese domestic stock indices were up 2%, despite ever increasing pressure from the US, especially on internet giants and Hong-Kong. Interest rates were globally lower after the minutes of the last Fed monthly meeting expressed concerns on growth.

So far, data show deceleration but no outright deterioration. Indeed, China is doing fine, the US is solid and Europe is a bit mixed. The forward-looking concerns are however absolutely justified by two prominent unanswered questions: first, there is still no agreement in sight for the next phase of fiscal stimulus in the US, especially on the crucial topic of weekly unemployment benefits. The higher than average savings rate of the recent months has provided the US consumer with some cushion but it won't last forever. Second, the virus is still not under control on the American continent and the risk of resurgence in other regions still exists. We are reasonably confident on the latter: the world has learnt to live with the virus without freezing the economy and we don't think that the recovery will stop. It should simply be less spectacular than the perfect V-shape of risk markets.

For the coming weeks, the US Presidential campaign certainly complicates things on both domestic and geopolitical fronts. Radicalized postures by an imminent election are not a favorable starting point for reasonable negotiations: the handling of the virus in the US, the relations with China, and of course how to spend public money are all important topics for the campaign. It thus looks like key answers will be postponed to September, even more so as market focus this week will be on the Jackson Hole Symposium which gathers the world's most powerful central bankers. More than anything else, the inundation of money and the ultra-low interest rates explain the current rally.

Market participants will focus on the latest developments there, at a time when monetary policy may shift its focus from immediate emergency to medium term measures to protect the recovery. Markets will also have to wait for mid-September to learn more on the reshuffled long-term goals of the US Federal Reserve, which will certainly indicate more tolerance towards inflation. We may however have to wait longer for the announced review of the Fed's forward looking guidance, which is expected to become more systematically data dependent, providing better visibility.

With regards to fiscal stimulus, the clock is ticking as the US elections is now only 10 weeks away. A possible way could be to agree on a partial plan now and to postpone negotiations on the major amounts after the November result. In the meantime, the turbulences we were expected this summer haven't materialized yet. Indeed, the enthusiasm of retail investors, pushing for example Tesla or Apple share prices to uncharted territories, is putting a huge pressure on institutional investors who are not heavily positioned on risk assets, and don't find any reasonable yield from safe assets.

Between our fundamental reservations on expensive valuations, and a pragmatic acknowledgment of the strength of behavioral factors, our level of conviction is honestly quite low. The short-term still looks dangerously complacent, but combining growth stimulus measures with ultra-low interest rates gives little alternative to risk assets in the medium term.

This is why we are only slightly defensively positioned, and quite happy with the performance of our recommended positioning so far. Our Cautious, Moderate and Aggressive profiles have returned respectively more than 5, 4 and 3% and we will wait for August key economic data to consider adjusting in our next Committee. We are slightly overweight cash and fixed income over equity and alternative, and kept our preference for Emerging Markets and Gold.

On the virus front, the global death toll has sadly crossed the 800,000 mark. The total confirmed cases in the world amount to more than 23 million, with the US, Brazil and India the most affected.

As we write this morning, the early hours of trading session in Asia are unambiguously positive. Stocks are rising, led by Hong-Kong and Tencent in particular as the Trump administration is reported to have private reassuring talks with US companies about their ability to keep on doing business with the Chinese WeChat messaging app. TikTok will file a lawsuit against the Trump administration today to challenge its ban. Back to Asian markets: Japan, Korea, onshore China are also rising in a broad rally which also includes future contracts on US and European stocks.

Oil price futures are stable after their weekly advance. Two storms are quickly moving in the US Gulf Coast, threatening Texas, Mississippi and Louisiana and disrupting oil operations there and in the Gulf of Mexico. Aramco has created a new department in charge of portfolio optimization to keep on adapting to the current environment.

Today, the Republican national convention starts and will last four days, and the rest of the week will be a lot about central banks, with the Jackson Hole meeting and an upcoming speech from Mr Powell.

Stay safe.

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