



CIO OFFICE MORNING MARKET WRAP – Tuesday August 25th, 2020. ALSO AVAILABLE ON ALEXA

Optimism dominated markets on Monday, boosted by news flow about COVID-19 treatments and vaccine, as well as by some de-escalation between the US and China. On the former, the US expands a treatment based on antibodies from plasma donated by people who have recovered from the virus while Moderna, one of the leading firms in the race to a vaccine, indicated negotiating a deal to provide the European Union with 80 million doses. On the latter, US and Chinese officials had a re-scheduled conversation between high ranking officials about the phase-one trade agreement: both parties see progress and are committed to success.

In the modest volumes of August, markets didn't need more to take a pro-cyclical stance, which confirms that positioning is still light, as last week's objectively bad news didn't have any impact. Developed Market stocks added 1% yesterday with a new

record high for US stocks. Emerging stocks gained 1.5% and Dubai DFM outperformed again, adding +2% with EmiratesNBD Bank being the best contributor.

Oil prices fluctuated in a narrow range, as traders eye the tropical storms developing in the Gulf of Mexico, but the Brent future contract holds the \$45 level. Sign of the times, Exxon, which was the world's largest company less than 10 years ago, will exit the Dow Jones index and be replaced by software company Salesforce. Talking about record, with a weight of 6.5% in the S&P500, Apple is now the largest component ever in the world's most prominent index. Defensive assets were relatively steady on Tuesday: the US 10-year Treasury yield was less than one basis point higher at 0.66 and Gold traded close to \$1950 an ounce.

As we write this morning, the mood is also good in the morning session in Asia. Stocks rise in Japan, Australia, China and South Korea as well as on Western futures contracts. The US dollar gently slips. The Republican National Convention begins, on the theme of "Land of promise", and there is little doubt that the speakers will not always have kind answers to their Democrat rivals who held their own convention last week.

Pragmatically, this 3 day convention means that we should not expect decisive progress on the fiscal stimulus talks in Washington. We keep on believing that both parties will agree on a minimal, vital but immediate package, including weekly unemployment benefits, and push back the most structural discussions to November, post-elections. The Jackson Hole symposium, the annual gathering of the world's central bankers, will start tomorrow and the most awaited speech from Fed chairman Powell, is scheduled on Thursday.

In Europe, the likelihood of a no-deal Brexit doesn't make global headlines but is only rising. Both the UK and the EU blame each other for the lack of progress and this could take a toll on the British Pound at some point, and be another headwind on regional economies. Having said that, the only way to negotiate with the EU is usually to the limit - time will tell, but the clock is ticking as the deadline is set at the end of this year. Today will see the official GDP number for Germany in Q2 and more interestingly the IFO survey for August, but no other major economic data.

Stay safe.

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