



CIO OFFICE MORNING MARKET WRAP – Sunday July 26th, 2020. ALSO AVAILABLE ON ALEXA

Last week started well and ended on a mixed tone. Overall, fixed income was well oriented and outperformed stocks which were broadly flat. The star of the week was the king of defensive assets: Gold gained 5% over the week, lifting its 2020 appreciation so far to +25%. The bullion topped \$1900 for the first time in the last 9 years. Gold had been our largest overweight for long, and still is, despite the fact that we took partial profits 2 weeks ago – we would have loved to have a better timing, but we remain overweight and taking profits never hurts. The reason for our positive stance for months is obviously that the precious metal is a direct beneficiary of Central Bank action and low real interest rates.

It was also greatly helped last week by its traditional sensitivity to geopolitical tensions: the confrontation between US and China looks real with closing of consulates in both Houston and Chengdu. We may certainly see more verbal escalation in an electoral

year, with China being one of the signature topics of Mr Trump; however we keep on thinking that we won't see yet dramatic action as it would be detrimental to both parts with absolutely no benefit.

There were also signs of a fading economic momentum in July, as illustrated by rising US weekly jobless claims as well as by a disappointing consumer confidence in the Eurozone. This looks confirmed by high frequency consumption data in July.

Again, the laws of economic gravity apply and the pace of the recovery cannot be as high every month after the trough. We will get the US consumer confidence later this week to get a better idea, but no doubt that the virus not being under control there has an impact: the US reported 75000 new cases on Saturday which is the second highest daily number since the outbreak began.

To summarize, we expect turbulences as markets will question the currently implicitly perfect trajectory of the expected recovery, but ultimately all concerns are manageable and being taking care of. Our current defensive stance is therefore reasonably calibrated and tactical in nature: it could be reversed on a significant risk-off episode, should it happen in the coming weeks or months.

The week ahead will be rich in corporate earnings and economic data, especially US and Eurozone GDP for Q2 and China's PMI. Last but certainly not least, the Fed will hold its monthly Committee on July 29th.

Stay safe.

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