



CIO OFFICE MORNING MARKET WRAP – Wednesday August 26th, 2020. ALSO AVAILABLE ON ALEXA

Tuesday was another positive session for risk assets globally, with key US stock indices notching fresh all-time highs again, led by technology, again. Stocks gained overall a modest 0.2% in developed markets, and 0.6% in emerging regions, with another notable outperformance of Dubai, up 1%. Defensive assets were slightly lower, with interest rates marginally higher across the curve. The US 10 year Treasury yield closed just above 0.7%. Abu Dhabi made a spectacular move in the dollar debt market by selling the longest Gulf bond ever with a 50-year note being part of its \$5 billion offering. Gold was marginally down, close to \$1930 an ounce.

The overall trend is positive, but some form of fatigue is palpable. The now 5-month long market rally relies on three pillars: an economic recovery, massive policy support, and, not to be forgotten, a below average positioning among institutional investors on risk assets. The recovery is happening, as the world has learnt to live with the virus.

However consumer confidence in the US in August, released yesterday, was materially lower than expectations. White House counsellor Larry Kudlow expects a V-shape recovery, but some resolution of the current impasse in Washington is needed, especially to renew weekly unemployment benefits. Fiscal support is key to secure the trajectory of growth: central banks can't do much more than what they've already done, which could be one of the messages from the Jackson Hone symposium, where Jay Powell will deliver his speech tomorrow. He is expected to push for fiscal stimulus, and to elaborate on the Fed's monetary policy framework review, which should include a new inflation strategy.

Germany is going fiscal, by extending the job-subsidy program to end 2021 to avoid lay-outs. The first phase of the rebound was driven by consumption, and significantly subsidized, the next one has to be manufacturing activity, which should happen given the low level of inventories, assuming that demand doesn't fall. To that extent, the German business confidence is good, as signalled by the IFO survey index for August, also released yesterday.

Inventories in oil and related products are also gradually normalizing, and the prices of Oil are supported by the disruptions caused by hurricane Laura, which is about to reach the Texas-Louisiana coast. More than a tenth of US refining capacities could be shut for some time. The weather is also difficult for the aviation sector. American Airlines will cut 19,000 employees on October first, and Los Angeles International Airport couldn't sell the entire 1.1bn bond it offered, as investors demanded higher yields.

As we write, the bullish fatigue is felt on Asian markets which do not reflect yesterday's record highs in the West. Most of stock indices are down, around -0.5% on average. We do not speak often about New Zealand: equity markets there are disrupted for a second day due to a cyber-attack. There is no major economic release today, we'll look at August consumer confidence in France and at the weekly EIA crude oil inventories. The Republican National Convention will continue.

Stay safe.

MAURICE GRAVIER
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