



## CIO OFFICE MORNING MARKET WRAP – Thursday August 27<sup>th</sup>, 2020. ALSO AVAILABLE ON ALEXA

Another day, another all-time record for US stocks. Both the broad S&P500 and the technology rich Nasdaq composite index surged yesterday, lifting their year-to-date gains to respectively +8 and +30%. For some time now, seeing that bad news have no negative market impact, we had discussed the surprising possibility of a melt-up, and it may just be happening. Retail investors' bullish fever is forcing bearish institutional money to put some of their non-yielding cash at work.

The pressure is high for defensive positioning, especially as Jay Powell will deliver today his speech at the Jackson Hole symposium. An update is expected on the Fed's framework review, to be formally announced in September. Some analysts forecast that rates could stay near zero for as long as five years. Market participants are holding their breath, and in the current tug of war between retail enthusiasm and institutional fear, the default option is to go up.

Apart from this hypothetically market-moving speech, it's difficult to find the great positive news behind the rally. Yes, US capital goods orders and shipments were better than expected in July, but we are in late August now and Washington still hasn't agreed on a new stimulus plan. Yes, Abbott was granted an emergency authorization to market its new 15-minute \$5 COVID test, but there are still 40,000 new cases every day in the US alone.

At the same time, there is no relief in geopolitical tensions: Beijing fired missiles into the South China Sea, and Washington put sanctions on 24 firms for their involvement in the disputed area. Hurricane Laura is growing into one of the worst storms to have ever hit Louisiana and the Gulf of Mexico in more than 100 years. 80% of oil output is halted, and a considerable 3 million barrels a day of refining capacity has been shut. Oil price is supported by the supply constraint but the short-term demand is obviously capped by refining disruption. The price of Brent crude is thus steady, just above \$45.

Interestingly, markets in Asia this morning are not as bullish as their Western peers yesterday, which tends to confirm our behavioral reading of a US centric rally. Fundamentally, the picture is good there. The Chinese industrial enterprise profit growth published this morning for July confirms that production activity has normalized. Stock indices are down in Hong-Kong, Japan, South Korea and only flat in onshore China. Australia stocks are slightly up as rates are lower. Markets in New Zealand remains disrupted by a cyberattack for a third day: this story is not heavily covered but the same happening to a prominent stock exchange would be devastating.

Western future contracts are down 0.3% in Asia, Oil prices are steady, Gold continues to consolidate now close to \$1940. The dollar is stable against its trade weighted counterparts, but interestingly the offshore Yuan is strong at 6.885 per dollar.

Today will be all about Jay Powell's opening remarks at Jackson Hole, to start at 5 PM Dubai time. Markets seem to focus on the "don't fight the Fed" principle, but participants may also not forget that when you "buy the rumor" it's generally a good idea to sell the news". One day in advance, we wish a happy Emirati Women's Day to all the great ladies of this great nation.

Stay safe.

**MAURICE GRAVIER**  
Chief Investment Officer  
Wealth Management  
Emirates NBD

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