



## CIO OFFICE MORNING MARKET WRAP – Sunday June 28<sup>th</sup>, 2020. ALSO AVAILABLE ON ALEXA.

Risk assets struggled for direction last week before ending it in the red, for one clear reason: the COVID-19 infection rates are rising again globally, and especially in the Southern States of the US. As a result, Developed Markets stocks lost -2.3% over the week, with the US closing at a severe -2.4% on Friday. Other cyclical assets were more resilient: Emerging stocks slipped -0.2%, on par with Dubai Market, and the price of Brent crude oil managed to stay above \$40, ending the week at \$40.9. Safe bonds were sought after and Gold continued to fly, up 1.6% over the week and almost 17% in 2020 so far at \$1771.

This was not a bad week for our recommended allocations, as we reduced exposure earlier in June while keeping an overweight in Gold and a preference for Emerging Markets. Last week was indeed a good illustration of the turbulences we expect on markets for the coming months. First, there is no doubt for us that the recovery has already started. The US consumption was up 8.2% in a month, with some potential to accelerate further as the savings rate remains high, above 20%. Global auto sales

surged by a double digit number, and on the industrial side, global flash PMIs accelerated, which should be confirmed by final monthly numbers to be released next week. Having said that, our scenario has also always been that the recovery will take time and not happen in a straight line. It will be questioned, especially as we experience the logical consequences of relaxed restrictions on the pandemic itself.

We keep on thinking that the world will not be submerged by a broad second wave of infection, but that many local outbreaks are inevitable. The good news is that the world is much better prepared, but it means some near-term impact on consumer and corporate confidence, questions on growth and a significant volatility on financial markets, also fuelled by rising political uncertainty.

The current volatility driver is the virus. Florida and Arizona had their largest one-day rise in infections, and Miami beaches are being closed before the National Day weekend. Geopolitical tensions are also on the rise, with mixed signals between the US and China, potential tariffs on Europe being discussed by the Trump administration, and Brexit talks to resume Monday with low expectations. Mrs Merkel voiced doubts about the willingness of Mr Johnson to reach a deal.

It's however good to remember that the threat of no-deal deal is the signature negotiation strategy of Boris Johnson. The US presidential campaign is also reaching its full speed: Mr Biden enjoys a material lead in the polls, which will trigger a response from Mr Trump, at a time when protests in the US are dividing the public opinion. Against this backdrop, markets will remain volatile but ultimately we believe that the trajectory of the global economy is unequivocally positive.

The support from the short-term capitulation of bearish investors is ending with the quarter. However, there are still huge piles of cash sitting on the side-lines, as evidenced by the record levels of assets under management of global money market funds, despite interest rates having evaporated. This cash could be put at work once the volatility abates, after the turbulences we expect for the coming months. This week, we will carefully listen to Central Bank officials, starting with Mr Powell, and read the minutes of the last FOMC meeting on Wednesday. Among the deluge of economic data being released, we will focus on manufacturing PMIs as well as the US job report on Friday.

Stay safe.

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