



CIO OFFICE MORNING MARKET WRAP – Monday September 28th, 2020. ALSO AVAILABLE ON ALEXA.

September should be the first negative month since March on global markets, but the magnitude of the sell-off remains reasonable. Actually, September so far has erased the gains of August, as global indices are back to their late July level, and the third quarter which is about to end remains firmly in the green on all major asset classes.

The week which starts on international markets should however see some action, with a mix of political and economic news-flow. Starting with the former: the first US presidential debate between Donald Trump and Joe Biden will take place Tuesday evening. As Mr Biden's lead is narrowing in the polls and with many topics to discuss, from the Covid-19 to the Supreme Court or protests, this will have to be closely followed. With regards to market impact, the key differences between the two programs are on taxes and international trade. On that point, a federal judge temporarily blocked the US ban on TikTok yesterday evening. The impasse on the fiscal stimulus in Washington should also be discussed: a mega deal on a full package is unlikely as the campaign is in full gear, but doing nothing reflects badly on both parties. An agreement on a minimal set of measures, including the weekly unemployment benefits, is not impossible and would boost sentiment.

In Europe, a crucial round of Brexit talks will also start in Brussels today with the looming risk of another impasse. Closer to us, heavy military clashes between Azerbaijan and Armenia over the weekend have triggered calls from the international community to halt hostilities. As martial laws have been declared in both countries, the confrontation bears the risk of dragging in their respective allies Turkey and Russia, and an important oil pipeline is not far from the conflict zone. The economic calendar is also very rich this week and started positively with a reported increase in industrial profits in China. The world's second largest economy will release its PMIs Wednesday morning which are expected to soften from their currently very high levels – but they may also confirm that China is currently by far the brightest spot of global growth. In the US, we will get the a key consumer confidence index on Tuesday, before the ISM Manufacturing on Thursday and the monthly job report on Friday – importantly, the last one before the elections. The Eurozone, Japan and India will also release flash PMI numbers.

The current context is about risks to the outlook from political uncertainty, including potentially contested US election results, and fresh coronavirus waves. Turbulences should persist in the near-term. Having said that, positive catalysts are identified: a vaccine will be the most important, but positive developments on policy support are again not impossible, and no matter how tough the election process is, we will have a result in early December at the latest. This is why our positioning is only slightly defensive, as we believe that the medium term outlook remains reasonably constructive. We will closely monitor the US Dollar in the short-term as its recent strengthening, linked to risk-aversion rather than strength in the economy, weighs on risk assets.

Our regional markets were overall flat yesterday, with Saudi Arabia and Abu Dhabi slightly up while Dubai was slightly down. As we write this morning, financial markets are pretty well oriented in the early hours of trading in Asia, due to the strong close in the US on Friday. Stocks are up in Korea, Japan, Singapore and Honk-Kong, and flat in China. US and European futures also gain with the dollar edging lower. Crude oil slips, with the Brent futures at 41.7, while interest rates and gold are little changed.

Stay safe.

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