



CIO OFFICE MORNING MARKET WRAP – Monday June 29th, 2020. ALSO AVAILABLE ON ALEXA.

Global cases of Covid-19 reached 10 million yesterday, with another material increase in the daily additions. Deaths from the coronavirus sadly surpassed 500,000 worldwide. The US is especially in focus: after Florida and Texas, Arkansas took a pause in its planned reopening. Some hopes about the virus not being able to spread in the higher temperatures of the summer are not proving right.

Numbers are not good, which is for us a logical and inevitable consequence of the relaxation of the outbreak-related restrictions. We have to live with the virus until a relevant vaccine is available, which means that local outbreaks will keep on happening, and will be managed better as healthcare systems and professionals have made tremendous progress. It is not a second wave, but multiple local waves, which are also part of the journey to herd immunity. The current issue is quickly presented as global but it appears to be mostly American.

The Southern part of the continent hasn't peaked yet, and the US is struggling in the very states which lifted restrictions early. They also happen to be key states in the current Presidential campaign which probably amplifies their media coverage. The other global hot spots are on a much lower level: the Australian state of Victoria, the city of Tokyo, the Chinese

capital Beijing have reported respectively 75, 60, and 7 new infections, to be compared to almost 10,000 for Florida alone. This is a global wave only for financial markets. As we write for some time, markets' elevated valuations made them vulnerable to any bad news or even to the lack of incremental good news, which is why we started turning defensive again at the beginning of June.

Last week ended with a clear risk aversion in the US, with the S&P500 closing at -2.4%, which generally means a difficult opening for global markets the following week. Indeed, GCC markets were very resilient yesterday. The Saudi Tadawul was up 0.8%, helped by the prospects of a merger between two publicly-listed banks. UAE markets were overall well oriented as well, with Dubai close to flat and Abu Dhabi slightly up.

As we write this morning, the early hours of trading in Asia are negative but there is not panic. Developed Markets such as Australia and Japan are logically following the US closure, losing close to 2% but off their session lows. Emerging Markets are a bit more resilient, down - 1%. So far in Q2 Emerging Market stocks are outperforming Developed Markets for the first time in a while. They are not only cheaper and less crowded. Looking into the latest update to the IMF global economic outlook, the fundamental picture is materially different.

Advanced economies are expected to see their GDP contracting by -8% in 2020 before growing at +4.8% in 2021. For Emerging Asia, the contraction is expected at -0.8% only and the 2021 rebound at +7.4%. China's industrial profits rebounded in May, which is another indication that the world's second largest economy is so far consistent with a V-shaped recovery. China hasn't implemented massive quantitative easing yet, favouring more conventional measures as the country is well aware of the risks of ballooning debt and asset bubbles. The PBOC however has reiterated this morning that it was ready to lower funding costs further as well as to increase support to smaller companies. It might be needed, as the recovery may be dented by renewed geopolitical tensions.

The US and China are sending mixed messages on their compliance with their Phase 1 trade deal, and blacklisting each other's companies almost every week. Tensions could only be exacerbated by the US Presidential campaign. On another signature topic from 2019, Brexit negotiations are set to restart today in Europe with only 6 months before the official deadline. Today, retail sales numbers from Japan in May were slightly below expectations, and we will get later a consumer confidence survey in Europe as well as the Dallas Fed Manufacturing activity index. Tomorrow and the following days will see more market-impacting data, culminating with the US job report on Friday.

Stay safe.

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