



CIO OFFICE MORNING MARKET WRAP – Wednesday July 29th, 2020. ALSO AVAILABLE ON ALEXA.

Global markets struggled for direction on Tuesday. On one hand, a drop in US consumer confidence was the latest indication that the pace of the recovery is cooling, at a time when the weekly \$600 bonus to jobless people is set to expire, with negotiations just starting in the congress on the next step of fiscal stimulus. On the other hand, and it was yesterday's key event, the US Federal Reserve extended the deadline of most of its emergency lending programs from September to December, in a surprise announcement one day ahead of tonight's monthly press conference on monetary policy.

It briefly boosted risk assets but volatility quickly came back. Global stocks fell 0.2% on average with Emerging Markets outperforming and the US underperforming, down 0.7% at the close. Safe bonds were sought after and the US 10-year Treasury yield lost 4bp to 0.57%. The US Dollar was stable, but Gold had a pause in its so far parabolic rise, stalling around the \$1950 mark. The price of Brent crude oil moved down 0.5% to \$43.2 and our regional stock markets were well oriented with the MSCI GCC adding 0.6%. Back to the US, we are not overly concerned: the pace of the recovery cannot be as vertical as it was immediately after the restrictions were lifted, and we are confident in the fact that a deal will be found on fiscal

stimulus. There is actually no alternative. In an electoral time, the opportunity is however unmissable for the Democrats to add some social features to the originally Republican plan.

The key item to be discussed is the level of weekly benefits for the unemployed: the current plan is to lower it from \$600 to \$200 with a onetime check of \$1200 for households. Parenthetically, the current times are a perfect illustration that the so called Modern Monetary Theory is being implemented, with the Fed providing unlimited, free funding and the Government distributing money to consumers.

On the virus front, global cases keep on decelerating, now around 16.7 million, and even the US Sun Belt states show some improvement, which is our scenario but seems to take time. President Trump said a vaccine may be approved “very, very soon”. As we write this morning in Asia, markets are mixed. Chinese domestic stocks are sharply up 1.3%, followed by South Korea, but Japan slips as Fitch Ratings lowered its outlook on the country’s debt.

Volumes are however quite light. Today’s key event will be the FOMC’s announcement. Thursday is a big day with quarterly GDP in the US and quarterly earnings from Apple, Amazon, Alphabet as well as other global blue chips such as L’Oréal or Samsung. On the special occasion of Eid Al Adha, we wish you and your families a blessed and joyous holiday.

Stay safe.

MAURICE GRAVIER
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