



CIO OFFICE MORNING MARKET WRAP – Sunday 31st of May, 2020. ALSO AVAILABLE ON ALEXA.

Markets didn't pay much attention to geopolitical and social tensions last week, with an intensification of the equity rally. Selling in May and going away wouldn't have been a good idea this time. Last week concluded a month during which Global stocks, High Yield and Emerging Markets' debt added close to 5%. Every single asset class was positive in May, including Gold and Real Estate. Oil prices confirmed their recovery, closing at 35\$ for the Brent crude oil.

The backdrop indeed is a perfect combination of a credible economic rebound, meeting high liquidity and low interest rates. On the macro front, Friday's consumer report in the US was stunning: consumer spending plunged 13.6% in April, slightly more than expected, but personal incomes were up 10%, boosted by social benefits, which resulted in a record high savings rate, close to 33%. This illustrates the magnitude of the stimulus but also the potential for consumption to rebound, especially as in the meantime, inflation collapsed.

Having said that, crucial economic data will be released in the week ahead: global PMIs for May, and the US monthly job report on Friday will give precious cues on the timing of the recovery. As we write, PMIs for China are just out. The gauge for services is good at 53.6 but the manufacturing number unexpectedly declined to 50.6 from 50.8 in April. Recovery had started in March in China but their factories need global demand to work at full capacity.

In this context, Mr Trump's plan to end some trading privileges with Hong-Kong is the last episode of rising geopolitical tensions between the two superpowers, as new national security laws are pursued, de facto reducing the autonomy of Hong-Kong. China reacted bluntly, qualifying it as a gross interference in China's internal affairs, which comes on top of the ongoing dispute about the origins of the coronavirus and the handling of the pandemic.

At the same time, the US President postponed a G-7 meeting initially scheduled for June to the autumn, but China doesn't seem to be in the initial list of proposed attendees, while Australia, South Korea, India and Russia are mentioned. Tensions are not only international. Violent demonstrations continue in the US after the death of George Floyd during his arrest in Minneapolis, with brutal clashes with police in every major city of the country. Mr. Trump took a firmer stance, stating that "there will be no anarchy" and deploying the US National Guard.

At the same time, the presidential fury against Twitter is not abating after the social network added a link to fact-check some of Mr Trump's statements, as they do for suspected fake news. We are only 5 months away from the presidential elections. Let's end with good news. First, virus-related restrictions are being eased in India and Indonesia, and should soon be in New York City.

Finally, NASA astronauts are back to orbit as Elon Musk's SpaceX's successfully launched their human flight system from Cape Canaveral. This could be a significant step to open space tourism in the coming decades, where there is no virus, no violence, and no trade war.

Stay Safe.

MAURICE GRAVIER
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