

# Weekly Market Summary

July 3rd, 2020

## Hanging in There so Far ... Waiting for the Next Big Surprise!

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*Latest Update on Coronavirus:* Confirmed cases last at 11.02 million (from 9.73 million last week), with the death toll from the pandemic close to the 525,000 mark (524,743 last versus 492,250 deaths the week before). The number of daily deaths from Covid-19 has increased significantly over the past three days in several countries (Russia, Brazil and Indonesia), but also in several US states (Arizona, California, Texas and South Carolina). The UK is set to reopen pubs and hotels after months of lockdown. Beijing announced the first easing of restrictions as infections stemming from an outbreak at its largest wholesale market appear to slow.

Capping a month packed with controversy - including a contentious immigration order, claims of fake media news and biased intelligence community as well as a diplomatic crisis with friends and foes alike – the US President launched yesterday an extraordinary attack on the news media in a wide-ranging, wild 75-minute press conference. The President insisted his team was running "like a fine-tuned machine" and ridiculed the mainstream media that he said was peddling "fake news." "I open the paper and I see stories of chaos, chaos, but it is the exact opposite" he said. Trump added that "he had inherited a mess" while "my administration is running like a fine-tuned machine!"

The above is an extract from a GIB weekly market report produced back in February 2017(!), though it could easily portray the latest developments / radical polarization continuing to take hold of American politics just months away from the November 8<sup>th</sup> presidential election. A strong sense of "Déjà Vu" (a French word, literally meaning "already seen") you might rightly point out! But isn't that exactly what Nick Bostrom, a philosopher at the University of Oxford, suggested back in 2001 - arguing that all of humanity and our entire physical universe are just blips of data (simulations) stored in the hard drive of a massive supercomputer (time to download "The Matrix" sequel and watch it one more time 😊).

Another week, another tight trading range in financial markets, a further rally in equity prices and drop in implied volatility measures (the Chicago Board Options exchange Volatility Index, alias VIX, traded down to 27.68 yesterday - a one month low). That said, the million-dollar question remains whether these little moves are a reflection of investor calm or increased complacency in the face of rising Covid-19 infections globally. Either way, the latest dip in volatility gauges leaves room for a renewed surge in market instability should adverse market surprises materialize over the coming weeks.

Beginning with positive tangible news, US payrolls (released yesterday afternoon, a day earlier than usual due to the July 4<sup>th</sup> holiday) posted an impressive 4.8 million increase for the month of June, more than 1.5 million above the Bloomberg median forecast (surveyed economists). A gain in employment of similar magnitude in the household survey (used for unemployment rate computations) meant that the unemployment rate fell to 11.1%, from 13.3% in May and versus a consensus forecast of 12.5% for June, despite a larger-than-expected rise in labor participation. "Today's announcement proves that our economy is roaring back. It's coming back extremely strong," President Trump said in a news conference about an hour after the numbers were released. He pointed specifically to a sharp drop in the unemployment for Blacks that fell from 16.8% to 15.4%. "These are historic numbers." However, with the job increases tilted once again towards lower-paying sectors that were hit worse by the job losses of April, average hourly earnings fell 1.2% for the month (i.e. -1.2% m/m, but still +5.0% y/y). Additionally, adding the job gains in May and June, payrolls have only recouped about a third of the positions lost over March and April.

Strong US payrolls came on the heels of a much-improved manufacturing survey. The ISM Manufacturing Index jumped to 52.6 in June (a number above the 50.0 threshold implies economic expansion), from 43.1 in the prior month and versus a consensus forecast of 49.8. Surprisingly, the production and new orders sub-indices both rose markedly from the low 30s level in May to 57.3 and 56.4 respectively for June, though the employment index remained well below the 50 mark (last at 42.1, though up from 32.1 in the prior month).

Still, one could be forgiven for thinking that the news - in general - has been outright positive over the past few days! After all, we did learn earlier this week that confirmed coronavirus cases had surpassed the 10 million mark, continuing an accelerating trend that is decimating economies around the world. This in turn assumes that investors' faith now solely rests in the largess of governments and central banks! Federal Reserve officials fully acknowledge that many businesses will not make it through the pandemic-spurred economic contraction. They also recognize that consumer spending will not fully bounce back even into next year and worry about a serious chance of a double-dip downturn that could permanently scar the American labor force; Those are some of the major points from the Fed minutes (for the June 9<sup>th</sup> - 10<sup>th</sup> meeting) released on Wednesday - in which officials and central bank staff paint a bleak picture of what lies ahead for the American economy, citing "*extraordinary*" uncertainty and "*considerable risks*" to the economic outlook (how comforting! 😞). Central bank officials also noted they are in no hurry to remove monetary support with a pledge to keep rates near zero at least through 2022, though the minutes did show they were nowhere close to agreement on a potentially complementary tool to reinforce that guidance by committing to cap Treasury yields with unlimited purchases of short or medium-term government securities (Never say never! Although that would potentially amount to the final nail in the coffin of US economic and political supremacy!).

And if the above news isn't enough to raise the level of concern amongst economists and investors, we also have the usual recurring US-China damaging stories as well as Dr. Fauci's depressing predictions! On the former, US and China are fast moving beyond trade threats to exchanging regulatory punches that threaten a wide range of industries including technology, energy and air travel. The two countries have lately blacklisted each other's companies, barred flights and expelled journalists. Previously, Trump has blamed China for covering up the coronavirus pandemic he has mocked as "*Kung Flu*", accused Beijing of "*illicit espionage to steal our industry secrets*" and threatened the US could pursue a "*complete decoupling*" from the Chinese. And on Capitol Hill, Republicans and Democrats have found rare unity in their opposition to China, with lawmakers in the Senate giving final approval to legislation that would impose sanctions on Chinese officials cracking down on dissent in Hong Kong (the bill heads now to President Trump for his signature or veto). As to Dr. Gloom & Doom Anthony Fauci, the director of the national Institute for Allergy and Infectious Diseases lately stated that the novel coronavirus is showing signs of mutating in a way that may make it easier for the pathogen (bacterium, virus or other microorganism that can cause disease) to spread faster. However, Fauci was quick to add that there is some dispute about the findings and that this is still at the stage of trying to confirm that (😞?!).

Last, but not least, the world will soon turn its focus to Thursday's arrest of Ghislaine Maxwell. The onetime British socialite was one of the "*villains*" at the center of Jeffrey Epstein's sexual exploitation of underaged girls and indicted for playing a critical role ("*lady of the house*") in helping Epstein identify, befriend and groom minor victims for later abuse by Epstein and his surrounding circle of business titans, politicians, academics and even royalty. Whilst Maxwell's arrest yesterday seemed to come out of nowhere (amazingly few weeks after a four-part documentary on Netflix!), anxiety in some corners of the world is surely expected to be on the rise over coming weeks as new secrets and surprises get revealed!

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