Weekly Market Summary

June 5th, 2020

To Infinity and Beyond!!
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Latest Update on Coronavirus: Confirmed cases last at 6.72 million, with the death toll from the pandemic almost reaching the 400,000 threshold (393,550 deaths last). The COVID-19 is currently affecting 213 countries and territories around the world. Brazil has surpassed Italy as the country with the third most fatalities in the world from the coronavirus (after the US & UK). Even as the pandemic eases in some countries, the virus continues to spread, with roughly 100,000 new cases being added every day as hot spots emerge from Latin America to India. More interestingly, a study that said a malaria drug (hydroxychloroquine) raised the risk of heart side effects and death has been retracted on Thursday (on mounting concerns about the quality and veracity of data used in the study), adding to controversy around a drug championed by US President Trump (and possibly dealing a small blow to the Gates Foundation's push for MODERNA's engineered RNA vaccines 😊)

"*To Infinity and Beyond*" is Buzz Lightyear's famous catchphrase in the Toy Story movies and the TV series Buzz Lightyear of Star Command! Buzz – a plastic bilingual spaceman action figure with wings, a laser and a helmet, who accompanies Woody on his adventures in each movie often repeats this slogan - which probably refers to limitless potential and possibilities. Who knows? Maybe one day, the same phrase would be used to describe the relentless rally in asset prices over the past few weeks!

In past days, the press coverage has overwhelmingly shifted to the protests taking place across US cities over the death of George Floyd, an unarmed black man, at the hands of Minneapolis police. Whilst demonstrations began peacefully, they later disintegrated into violence and looting in dozens of cities. "*Last few nights have been ugly nights all across the nation*" Said Andrew Cuomo, New York governor, adding that "*the real issue is the continuing racism in this country. And it is chronic, and it is endemic, and it is institutional.*" From his side, President Trump threatened to send American soldiers on the streets to quell the worst unrest since the 1960s unless cities and states take stronger action against non-peaceful protestors. Calling himself the "*law and order*" president, Mr. Trump spoke on Monday night as police fired tear gas and rubber bullets at marchers in Lafayette Square, a park in front of the White House. He then walked across the cleared area to St. John's Episcopal church, where he posed for pictures holding a Bible – a move that drew sharp critics from both religious and political leaders. It also led to a strong rebuke from former Defence Secretary James Mattis, who in a strong statement issued Wednesday talked about "*those in office who would make a mockery of our constitution*," and added that "*we are witnessing the consequences of three years without mature leadership*."

Yet, despite a "*light risk-off*" start in the early hours of Monday trading, markets have reacted with calm as developing social and political malaise have little effect on the US's $30 trillion-plus stock market! Portfolio managers who direct the investment of hundreds of billions of dollars have looked beyond the civil disturbances sparked by George Flyod's killing, even as protests increase the risk of another wave of coronavirus infections and delay the projected US economic recovery! Unlike previous instances where financial markets had shown similar resilience to social unrest scenes, another factor is at play to lift stocks in 2020: Unprecedented intervention by the Federal Reserve to support the economy through the pandemic. The US central bank has injected nearly $3 trillion into financial markets since the end of February, lifting stocks and overshadowing other market forces, according to most analysts. "*All the negatives are more than embedded in the markets*", notes Margie Patel, a senior portfolio manager at Wells Fargo Asset Management. "*You have had trillions of dollars come into financial markets. Regardless of the fundamentals, that is now the biggest fundamental*."

The S&P 500, which has so far gained 2.3% this week alone, is down only 3.7% this year. Since the Federal Reserve announced it would unleash its full force to support the US economy on March 23rd, stocks have gained nearly 40%!

One of the oddest things about 2020, so far at least, is how economic sense is being twisted in all sorts of ways to explain what is going on in the global economy and financial markets! For instance, the latest formidable surge in equity and commodity prices is somehow hard for many market observers to reconcile, given the deep economic damage caused by Covid-19. Mohamed El-Erian, Allianz's chief economic advisor, recently suggested that the subdued market reaction to the protests was "*consistent with the very sharp disconnect between markets and the economy*."

For now, bulls (financial market bulls, and not the animal species 😊) are in full control whilst economic data releases are no longer the main driver for the price action in asset prices. Whether this latest bout of buying proves to be temporary outright exuberance resulting from globally coordinated fiscal and monetary stimulus measures, or a permanent and true reflection of fast-improving economic fundamentals, remains to be seen. This afternoon's report on US Non-Farm Payrolls (NFP) will surely give investors further insight into the health of the world's biggest economy. Bloomberg consensus is for May's payrolls to have dropped by a sizable 7.5 million (following a 20.54 million drop in NFP for the month of April). Other important elements of the report include the unemployment rate (expected to jump to 19.1% from 14.7% the previous month), average hourly earnings (likely to rise by a decent +1.0% mom & +8.5% yoy), the participation rate (expected unchanged at 60.2%) and average weekly hours (expected slightly higher at 34.3 hours).

In the meantime, we provide below a coverage of other major stories that have shaped markets this week:

- ***ECB Expands its Stimulus Support to Markets!*** The European central Bank (ECB) doubled down on emergency stimulus at is monetary meeting yesterday, agreeing on an extra € 600 billion blitz of bond purchases and brushing aside dissenters on its own governing council – whilst risking a fatal showdown with Germany's top court. The latest scheme is effectively open-ended and the bonds will be reinvested as far out as 2022. Previously, German judges had ruled in May that the ECB has already crossed the line with an earlier bond purchase scheme and is violating Treaty law. The extra shot in the arm lifts the total package of "Pandemic QE" – known as PEPP – to € 1,350 billion and helps offset the deepening contraction of the Eurozone economy. The Euro last traded at $1.1325, after reaching an almost three-month high of $1.1384 earlier today.

- ***OPEC+ Set to Extend Output Cuts:*** OPEC+ is set to extend record production cuts for another month until the end of July to prop up the oil market after a breakthrough in high-stakes negotiations (with Iraq). The alliance meeting is now scheduled on Saturday for a final sign off. In past days, uncertainties about OPEC+ leaders' Saudi Arabia and Russia ability to push Iraq to stop shirking its share of cuts and compensate for failure to comply with past cuts had led to a small reversal in oil prices. After all, failure to reach an agreement this month could have brought millions of barrels of oil onto the market, undermining a tentative recovery in prices. Brent oil future - for August delivery – was last trading at $41.15 a barrel, whereas August WTI hovered close to $38.50.

- ***Yields Break on the Upside:*** Yields on long-dated US Treasuries climbed earlier today to their highest levels since March, as hedge funds and other investors crowded into a trade that will pay-off if the yield curve continues to steepen. In that trade, investors buy shorter-term Treasuries on the expectation that the US Federal Reserve would continue keeping benchmark short term rates near current record low levels, whilst shorting 10- or 30-year bonds on expectations of recovering growth and widening fiscal deficits (which in turn require more sales of new government debt to fund the latest round of federal stimulus). The difference in yields between 2-year and 30-year Treasuries rose to 147 bps, the most in three years!

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