Weekly Market Summary

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A Strange Calm Before the Storm, Little Impacted by a Great Market Unwind!!

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Latest Update on Coronavirus: Confirmed cases last at 21.10 million, with the death toll from the pandemic at 758,066. Around 3.4 million people in England - or 6% of the population - have contracted coronavirus, with infection rates twice as high in London, a major antibody study found. Germany added the highest number of new cases since May and travel stocks slumped after the UK government said it will require travelers from France, the Netherlands and four other countries to quarantine. In New Zealand, Prime Minister Jacinda Arden extended the lockdown in Auckland for 12 more days (for 29 new cases within a population of 1.5 million. Seriously?!), whilst the UK changed the way it calculates deaths from the pandemic following concerns that anyone who tested positive for Covid-19 in England and later passed away – regardless of timing or circumstances – was being recorded as a fatality caused by the virus (known as the Gates/Fauci bias 😊)

Ouch, those months of August!? In 2007, a French bank (BNP) froze funds; In 2008,US banks were on the verge of collapse; In 2010, the Greek crisis was spreading to peripheral countries; In 2011, Italy was hit by the EUR crisis and S&P downgraded the US sovereign credit rating to AA+; In 2012, the Eurozone was still somewhere between self-destruction and ultimate relief, thanks to the ECB; In 2014, Russia moved self-propelled artillery onto the territory of Ukraine; And in 2015, China's stock markets declined abruptly. The summers of 2017 and 2018 were not perfectly calm either, but were shaky like other summer months, due to worries over geopolitics, and the US President's inflammatory rhetoric against a couple of Asian countries; Lastly, who can forget August 2019 when a tiny and brief negative spread showing between US 2-year and 10-year Treasury yields triggered panic disorder amongst Wall Street traders – prompting market "*experts*" to speculate about the timing and severity of the next economic slump and how investors should be preparing for it. And yet, everything seems normal for August 2020!

In general, the "*calm before the storm*" refers to an extremely quiet and peaceful atmosphere right before a serious incident or crisis materializes. This saying was originally used by sailors who usually observed that the weather - right before a storm hit – becomes unnervingly calm; The reason for that is that a storm needs warm and moist air to fuel it and that air is normally very stable and causes that feel of stillness or lull. Markets are not much different! The past few weeks have witnessed extreme investors' complacency, with stock markets simply rising a bit every day, bond yields trading in a narrow range and measures of volatility (VIX for equities; MOVE for bonds) matching pre-corona lows. The calm comes despite investors adjusting to a world of fluctuating/rising Covid-19 case counts, recurring regional lockdowns, rising political / geopolitical tensions globally – though all is soothed by continuing support from central banks and governments throwing massive stimulus at their economies to mitigate damage from the pandemic.

Still, stocks and bonds have been so steady and so quiet for so long now that it is almost disconcerting! The current "*quiet*" streak has extended to over two months. The S&P 500 index is flirting with a record, whilst the CBOE volatility index, or VIX, has dropped to 22 from its high of 83 in March. One-month realized correlation, a measure of how shares have actually moved, has also dropped to the lowest this year. Investors cheered by signs of calm should not necessarily see this as an all-clear! Their current sole focus on positives (economic data surprising to the upside, Trump's administration / Congress promising additional stimulus measures, world's hope for a Covid-19 vaccine before year-end building-up, Larry Kudlow's [Trump's top economic adviser] confirmation that rising tensions between the US and China will not jeopardize the trade deal signed between the two countries) is absurdly overvaluing prices of financial assets and a market reversal could soon follow should the investing herd realize the glaring disconnection between the economic/political reality and the valuation of those financial assets in question, prompting them to align their market positioning accordingly.

In such a context, it is safe to note that stormy clouds have been gathering on the horizon for some time now (terrible second quarter growth performances in Europe and the US, rising political pressure in the US and geopolitical uncertainties in the Middle-East, mounting Chinese - US threats, etc..), though a sharp market reversal will only be set in motion by random future triggers (a planned review of the US-China phase-one trade deal around August 15th or the upcoming US presidential election on November 3rd come straight to mind!)

Below, we leave our readers with a coverage of major stories that have shaped our world/markets this week:

- ***A Sharp Reversal/Unwind in Gold and Bond Prices:*** Nothing gets Wall Street fired up quite like a sharp reversal in prevailing trends across markets. Hence the excitement in the air that was palpable over the past few days, with the price of gold tumbling by the most since 2013 (from a high of $2,075/ounce last Friday to a low of $1,863 on Wednesday. We're back up last at $1,950/ounce), whilst yields on 30-year Treasuries jumped the most in more than two months (still a small 25 bps jump from 1.18% to 1.43%). The initial impetus for selling everything that was once in favor seemed to be Russia's announcement that it registered its first coronavirus vaccine and President Donald Trump's comments that he is "seriously" considering a capital gain tax cut. Both gold and government bonds are considered "safe havens" assets and are prone to decline during bouts of "risk-on" trading (a simpler explanation being "more sellers than buyers!", after prices reached overbought territory 😊)

- ***S&P briefly Tops Record Close:*** The S&P 500 popped above its highest-ever closing level last Wednesday (high of 3,387, closing at 3,380) and stood poised to erase its bear-market plunge in record time. Effectively, it took just 175 days for the index to go from peak to trough to peak, a recovery that has come faster than any comparable one in the past. The previous 12 cycles that saw stocks recover from a drop of at least 20% took an average of four years. Since bottoming in March, the S&P 500 has risen about 50%, with more than 40 of its members doubling in value. More than $12.0 trillion dollars of share value that vanished is now all but restored (try explaining that to the millions of newly unemployed persons around the world ☹)

- ***A US Bond Auction Flops After Inflation Shows Its Ugly Head***: The US Treasury market is headed for its worst week in months after an attempt to sell a record quantity of 30-year bonds received a less-than-enthusiastic response from buyers. The US government had been selling a record amount of debt this week as part of efforts to raise the vast sums of money needed to finance rising spending on pandemic relief. Thursday's 30-year offering provided a bit troublesome, especially that it came on the heels of a much-stronger-than expected consumer price report for July. CPI rose 0.6% month-on-month, following a 0.6% gain in June according to Labor Dept. figures on Wednesday. The median forecast in a Bloomberg survey of economists called for a smaller 0.3% increase.

- ***IEA Cuts Oil Demand Forecasts:*** The International Energy Agency cut forecasts for global oil demand as air travel suffers from the coronavirus crisis even more than previously expected. The IEA reduced estimates for almost every quarter through to the end of 2021, with the second half of this year taking the steepest downgrades. Despite that, world markets should tighten during the rest of the year as consumption recovers from the depths of the pandemic, while OPEC nations keep output in check, the IEA noted. Brent oil last trading at $45 a barrel.

- ***What if Kamala Harris Wasn't a Natural-Born US Citizen?*** Joe Biden and Kamala Harris made their first joint appearance as running mates last Wednesday, a day after Biden said he's picked Harris for the VP job, promising to bring steady leadership to the White House and attacking Donald Trump for his failed response to the coronavirus pandemic. However, a legal adviser and spokesperson for President Trump's re-election campaign questioned the citizenship of Senator Harris, a California native and the first Black and Indian - American woman to be on a major presidential party ticket. Later in the day, Trump said Harris possibly "*doesn't meet the requirements*" to serve as Vice-President 😊

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