

Weekly Market Summary

June 19th, 2020

Feeling Stressed About the Uncertain Future?! Time to Go Shopping!!

Fadi Nasser - Deputy Chief Investment & Treasury Officer

Latest Update on Coronavirus: Confirmed cases last at 8.60 million (from 7.62 million last week), with the death toll from the pandemic crossing the 450,000 mark (456,802 last versus 424,333 deaths the week before). The COVID-19 is currently affecting 213 countries and territories around the world. For the second day in a row, the number of new daily cases continues to rise globally - with nearly 140,000 more declared infected yesterday. Several countries have recorded new daily highs, including Mexico, Indonesia and India. On a positive note, the UK has lowered its Covid-19 alert level by one rank to level 3, reflecting the fact the coronavirus is no longer spreading exponentially in the community after almost three months of lockdown. China's top virus expert Wu Zunyou has said Beijing should not loosen coronavirus controls, despite his comment that the newly developing outbreak over the past days has been contained and the peak has passed.

Dealing with the uncertainties of life has always been a challenging task that often results in extra stress and anxiety! Will coronavirus disappear in coming weeks or alternatively expand via a second, more deadly, wave? Will recent simmering geopolitical tensions between North and South Korea as well as India and China lead to outright wars? Will I have a job by year-end, or will I be busy searching for one? Are my savings sufficient to survive this evolving financial crisis or is it time to apply for a new loan? When it comes to future challenges and changes, humans may not always be able to control the outcome but can surely work on controlling their responses to them. That is called resilience, a positive and flexible attitude that gives us the tools to bounce back from tough situations and thrive in the face of challenges. The major keys to dealing with uncertainty include the need to 1- let go and accept that we can't control everything, 2- take time to think and reflect on previous successful dealings with uncertainty and 3- refrain from negative thinking (overestimating risks and negative consequences of a particular situation) and instead work on imagining and preparing for the best possible scenarios and outcomes (self-fulfilling prophecy that makes us feel calmer and more confident). Still, in the face of very challenging times, nothing beats SHOPPING in making the human species feel better!

On Tuesday, economic data for the month of May showed that American consumers were getting their groove back as a record surge in retail sales for that month offered some hope of a quicker recovery from the pandemic-induced recession. The 17.7% month-on-month advance, to \$485 billion in receipts, was the biggest gain in data going back to 1992, though it followed unprecedented declines in the prior two months, according to US Commerce Department data. The retail figures, emerging after a surprise 2.5 million increase in US jobs during the same month, suggest a faster-than-anticipated rebound from what is likely to prove the steepest downturn since the Great Depression. After months of being stuck at home because of the coronavirus, and following relaxed lockdowns from various states, Americans felt it was about time to visit store fronts and do some shopping! That feeling was shared across the Atlantic, with Britons being urged by Prime Minister Boris Johnson to go out and spend after their economy lost 20% of output in April alone. UK May retail sales, released this morning, also showed a sharp recovery from their precipitous drop during the coronavirus lockdown - with sales including auto fuel gaining 12% month-on-month and household goods stores seeing a 42% jump from the previous month!

Whether this latest improvement in consumer confidence and spending, in the midst of a projected tidal wave of corporate bankruptcies in coming months, proves to be permanent or turns out to be a dead cat bounce remains to be seen. At the very least, one would now anticipate people to be more positively resilient, and definitely better dressed, when the final outcome is known! 😊. Till then, we provide below a coverage of other major stories that have shaped markets this week:

- **“Robin Hood” Once Again to the market Rescue:** The latest act by the US Federal Reserve was announced last Monday afternoon and consisted of buying individual bonds, after a previous announcement by the Fed that it would be purchasing exchange-traded funds of investment-grade bonds. The move came after a rocky start to the week’s trading on the stock market (at one point, Dow futures were down close to 1,000 points in early Monday trading), which itself followed a difficult end to the previous week. If investors still had doubts about a Jerome Powell Put, that is exactly how it would show and look (a vertical line on equity charts)! And to think that just last week, our argument was that the Fed’s job is not to encourage risky behavior, a problem known as moral hazard!
- **BOE Fears Mount, More Stimulus on the Way:** The Bank of England is growing increasingly worried that UK job losses will turn out worse than expected and threaten the recovery from the coronavirus pandemic. Whilst policy makers left benchmark rates on hold at their monetary policy meeting yesterday (UK base rate last at 0.10%), they showed their concern by adding another 100 billion pounds (\$124 billion) to their bond-buying program, warning that there is a risk of “*higher and more persistent unemployment*” with repercussions for economic growth and inflation.
- **Rising Geopolitical Tensions:** China and India have been trading blame in past days for a deadly clash that left 20 Indian soldiers dead high in the Himalayas and pushed the relationship between the two nuclear-armed neighbors into uncharted territory. In his first comments on the late Monday incident, Indian prime Minister Modi said Wednesday that “*India wants peace*” but that when provoked, it “*will give a befitting reply.*” (can we schedule that for July 2020? 😊). Elsewhere, North Korea – trying to have their fair share of news coverage for 2020 – blew-up an inter-Korean liaison office on its side of the border, in an explosive rebuke to Seoul that appeared designed to draw maximum global attention with little immediate risk of war.
- **The Bushy Moustache Bandmaster is Back!** Donald trump isn’t “*fit for office*” and lacks the “*competence*” to serve as president in part because he is solely focused on his political fortunes, John Bolton said in past days. Previously - whether in Cuba, Venezuela, Iraq, North Korea or Iran – there was simply no shortage of battlegrounds for Bolton’s crusade against leaders he sees as tyrannical enemies. Nowadays, his interest seems to have shifted to the US president as he tries promoting his tell-all memoir (surely a life filled with great and happy achievements! N O T), which delivers withering criticism of Trump’s leadership from one of his top national security advisors. Trump has attempted to discredit Bolton, tweeting early yesterday that his book is “*made of lies & fake stories.*” Bolton’s memoir – titled “*the Room Where it Happened,*” paints the US President as woefully uninformed and describes a series of troubling encounters with foreign leaders, which Bolton said proved the President was consumed with his political standing above all else.

Disclaimer

It is important that you only use this report if you are the intended recipient of this report and you have satisfied yourself that you are eligible to receive such information. This report is provided to you because you are one of our esteemed customers and have previously shown interest in receiving the type of information contained in this report.

The Treasury and Investment Management department of Gulf International Bank B.S.C. ("GIB") have compiled the information in this report. GIB is incorporated in the Kingdom of Bahrain and is licensed by the Central Bank of Bahrain (the "CBB") as a conventional wholesale bank. GIB's head office is located at Al-Dowali Building, P.O. Box 1017, 3 Palace Avenue, Manama, Kingdom of Bahrain.

This report is intended for the accredited investors, as defined in the Investment Business Code of Conduct published by the CBB. This information has not been reviewed by the CBB or any other regulatory authority in any jurisdiction and neither CBB nor any other regulatory takes any responsibility for the correctness or accuracy for the information contained in this report.

The information contained herein is not directed at or intended for use by any person resident or located in any jurisdiction where (1) the distribution of such information is contrary to the laws of such jurisdiction or (2) such distribution is prohibited without obtaining the necessary licenses or authorizations by the relevant branch, subsidiary or affiliate office of GIB and such licenses or authorizations have not been obtained. The recipient of such information is responsible for ensuring that this information has not been received by it in breach of laws and regulations of any jurisdiction.

This report contains publicly available information only, which has only been compiled by GIB. The information provided herein is on "as is" and "as available" basis and without representation or warranty of any kind. GIB hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall GIB or its subsidiaries, affiliates, shareholders or their directors, officers, employees, independent contractors, agents and representatives (collectively, "GIB Representatives") be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting there from, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of information or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of GIB or any GIB Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. The information here is, and must be construed solely as, compilation of information (unless expressly stated otherwise) and not statements of fact as to credit worthiness or recommendations or opinions of GIB.

This report does not provide individually tailored investment advice. Any materials contained herein have no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. The document is provided for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. GIB makes every effort to use reliable, comprehensive information, but we do not represent that it is accurate or complete. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the materials, nor are they a complete statement of the securities, markets or developments referred to herein. Recipients should not regard the materials as a substitute for the exercise of their own judgement. Any opinions are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GIB as a result of using different assumptions and criteria. GIB is not under any obligation to update or keep current the information contained herein.

The value of, and income from, your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised.

The information contained in this report is just for informational purposes. Information does not constitute a solicitation, an offer, or a recommendation to buy or sell any investment instruments, to effect any transactions, or to conclude any legal act of any kind whatsoever. GIB does not intend to provide investment, legal or tax advice through this report and does not represent that any securities or services discussed are suitable for any investor. When making a decision about your investments and business, you should seek the advice of professional advisors.

The report may contain statements that constitute "forward looking statements". While these forward looking statements may represent GIB's judgment and future expectations, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from GIB's expectations. GIB is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise. The historical information is provided for information purposes only. Performance figures are calculated before tax (if any) and after deducting ongoing fees and expenses. The performance figures are historical and past performance is not necessarily an indication of future results. Certain amounts (including %ages) included in this document may have been subject to rounding adjustments. Accordingly, figures may not be an exact arithmetic aggregation of the figures to which they relate. The values and forecasts shown represent our current indicative valuations and forecasts of the relevant transactions, currencies, interest rates, commodities or securities as at the date shown. Any value or forecast shown herein is not an indicative price quotation. We expressly disclaim any responsibility for the accuracy of the values or forecasts shown, any errors or omissions in the report

With the exception of information regarding GIB and save as otherwise specifically indicated, the information set out in this report is based on public information. We have, where possible, indicated the primary source of information. We strongly recommend the recipients consult the primary source of information. Facts and views in this report have not been reviewed by, and may not reflect information known to, professionals in other GIB business areas.

This Report, and the information contained herein (save to the extent that such information is publicly available) is confidential and may not be disclosed by you to any other person outside of your organization without our consent.

GIB retains all right, title and interest (including copyrights, trademarks, patents, as well as any other intellectual property or other right) in all information and content (including all text, data, graphics and logos) in this document. All recipients must not, without limitation, modify, copy, transmit, distribute, display, perform, reproduce, publish, license, frame, create derivative works from, transfer or otherwise use in any other way for commercial or public purposes in whole or in part any information, text, graphics, images from this document (excluding publicly available information) without the prior written permission of GIB.