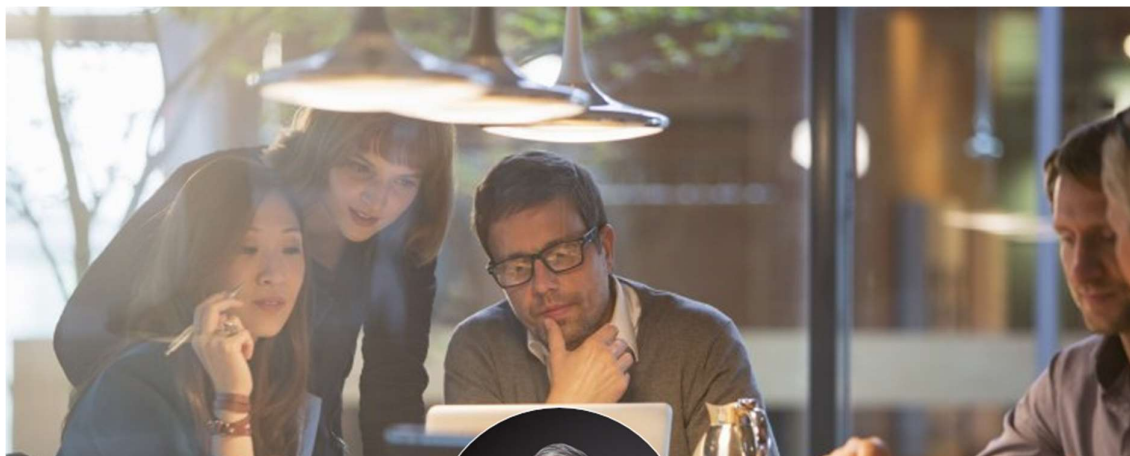


# TECH GIANTS POST RECORDS

August 2020



**Xavier TIMMERMANS**  
Investment Strategy PRB

## IN A WORD:

**US equities posted a fourth consecutive week of gains, driven by technology stocks and a strong housing market. On the other hand, European equities suffered from the unexpected drop in purchasing managers' indices (PMIs). Over the week, the S&P 500 index ticked up 0.7%, thus breaking a new record, while the Stoxx Europe 600 lost 0.8%, with the euro slipping against the dollar.**

## A historic record high

The flagship US stock market index, the S&P 500, reached a new all-time high. Having risen 52% since the low on 23 March, the index posted its fastest recovery after a decline of 20% or more. But the rise was mainly due to a small number of giants such as Apple and Amazon. The average share in the S&P 500 index is trading at 28% below its peak and the prices of a fifth of the stocks in this index are still more than 50% below their all-time record. The equally weighted S&P 500 index (equal weight for all stocks) was down 1.5% over the week. This discrepancy masks the damage the pandemic has had on companies.

Technology stocks have gained 27% in 2020, followed by +23% for consumer discretionary stocks (driven mainly by Amazon).

The question that constantly resurfaces is the following: "Are we on the brink of a burst in a financial bubble as seen in the year 2000?" The big difference this time is that tech stocks now enjoy impressive cash flows and profits. They are the big winners of the pandemic, which is set to persist for some time.



**BNP PARIBAS**  
WEALTH MANAGEMENT

## **A double top for the S&P 500 and MSCI World?**

Now that the S&P 500 has recouped all its losses from the Covid-19 crisis, it would make sense for it to mark a pause. From a seasonality point of view, the period just after the summer holiday is often challenging for stock markets, and this time, a lot of good news has been priced in and there are very few catalysts to support another rise.

But the technology stocks that have been driving the rally do not seem to be showing signs of flagging. At this stage, we need to monitor the widening of the market breadth. Although this was not the case last week, the number of stocks participating in the rally has increased in August and small caps in the Russell 2000 index have accelerated their upward movement.

## **Disappointing PMI in Europe**

Preliminary PMI readings for August show that eurozone purchasing managers are turning more negative especially in the services sector (50.1 vs. 54.7 in July). In France, the manufacturing sector index fell below 50 (49.0 vs. 52.4 in July) while in Germany it continued to rise (53 vs. 51).

Curiously in the US, where the outbreak of the pandemic has been worse than in Europe, both manufacturing and services PMIs have continued to appreciate (to 53.6 and 54.8 respectively, well above 50, which marks the boundary between growth and a slowdown).

This contrast between the United States and Europe seems to have stopped the dollar's decline against the euro.

## **What about oil prices?**

Last Wednesday the meeting of the OPEC's Joint Ministerial Monitoring Committee took place. The final press release revealed that the pace of recovery in demand was weaker than expected and stressed the risk of persistent waves of Covid-19.

OPEC+ cut production between April and July by -9.7 mb/d (million barrels per day) and will continue with -7.7 mb/d from August. It aims to tighten its internal control measures due to cheating countries.

This policy paid off because crude oil prices have tripled (Brent oil rose from USD 15 to 45). We might see some short-term weakness, but at the end of this year and next, crude prices are set to rise further on the back of lower investments in shale oil and traditional fields.

The number of active shale oil rigs in the US has been cut from 869 (as at 17/08/2019) to 172. Oil production in the US has declined more than global production.

## **Conclusion**

August has been a surprisingly quiet month despite bad news about the pandemic and deteriorating relations between the US and China. But our vision remains the same. We expect more volatility in the coming weeks.

If stock markets were to correct in the coming weeks (our scenario), we would be buyers. Our conviction is that the large amount of monetary and fiscal stimuli measures in place should boost the economic recovery ahead of the expected vaccines and more efficient treatments for the Coronavirus.

This week will be packed full of economic indicators. In the US, on Tuesday we await the publication of the consumer confidence index, Wednesday the durable goods orders, Thursday Q2 Gross Domestic Product, and Friday personal income. Lastly in Europe, on Friday, we await the publication of manufacturing and consumer confidence.

On Thursday and Friday, the Fed's Economic Policy Symposium will be conducted by conference call instead of the traditional Jackson Hole meeting held in Wyoming. Jerome Powell will speak on Thursday. Will he talk about the strategic review of monetary policy and a new inflation strategy?





## THE INVESTMENT STRATEGY TEAM

### France

**Florent BRONES**  
Chief Investment Officer

### Asia

**Prashant BHAYANI**  
Chief Investment Officer, Asia

**Grace TAM**  
Chief Investment Advisor, Asia

### Belgium

**Philippe GIJSELS**  
Chief Investment Advisor

**Xavier TIMMERMANS**  
Senior Investment Strategy, PRB

**Alain GERARD**  
Senior Investment Advisor, Equities

**Pol TANSENS**  
Head of Real Estate Strategy

### Luxembourg

**Guy ERTZ**  
Chief Investment Advisor

**Edouard DESBONNETS**  
Investment Advisor, Fixed Income

### Switzerland

**Roger KELLER**  
Chief Investment Officer

## DISCLAIMER

This marketing document is provided by the Wealth Management business of BNP Paribas, a French public limited company with a capital of € 2,499,597,122, registered office 16 bd des Italiens 75009 Paris - France, registered at RCS Paris under number 662,042,449, authorised in France, under the number 662,042,449, approved in France by the Autorité des Marchés Financiers (AMF). As a marketing document, it has not been produced in accordance with regulatory constraints to ensure the independence of investment research and is not subject to the prior transaction ban. It has not been submitted to the AMF or other market authority. This document is confidential and intended solely for use by BNP Paribas SA, BNP Paribas Wealth Management SA and companies of their Group ('BNP Paribas') and the persons to whom this document is issued. It may not be distributed, published, reproduced or revealed by recipients to other persons or reference to another document without the prior consent of BNP Paribas.

This document is for informational purposes only and does not constitute an offer or solicitation in any State or jurisdiction in which such offer or solicitation is not authorised, or with persons in respect of whom such offer, solicitation or sale is unlawful. It is not, and should under no circumstances be considered as a prospectus. The information provided has been obtained from public or non-public sources that can be considered to be reliable, and although all reasonable precautions have been taken to prepare this document, and, in the event of any reasonable precautions, the accuracy or omission of the document shall not be recognised. BNP Paribas does not certify and guarantees any planned or expected success, profit, return, performance, effect, effect or profit (whether from a legal, regulatory, tax, financial, accounting or other point of view) or the product or investment. Investors should not give excessive confidence in theoretical historical information relating to theoretical historical performance. This document may refer to historical performance; Past performance is not a guide to future performance.

The information contained in this document has been drafted without taking into account your personal situation, including your financial situation, risk profile and investment objectives. Before investing in a product, the investor must fully understand the risks, including any market risk associated with the issuer, the financial merits and the suitability of such products and consult its own legal, tax, financial and accounting advisers before making an investment decision. Any investor must fully understand the characteristics of the transaction and, if not otherwise provided, be financially able to bear the loss of his investment and want to accept such risk. The investor should remember that the value of an investment as well as the income from them may fall as well as rise and that past performance is not a guide to future performance. Any investment in a product described is subject to prior reading and to an understanding of the product documentation, in particular that which describes in detail the rights and duties of the investors and the risks inherent in an investment in that product. In the absence of any written provision, BNP Paribas does not act as an investor's financial adviser for its transactions.

The information, opinions or estimates contained in this document reflect the author's judgement on the day of his drafting; they must not be considered as authority or be substituted by anyone in the exercise of his or her own judgement and subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity will be liable for any consequences that may arise from the use of the information, opinions or estimates contained in this document.

As a distributor of the products presented in this document, BNP Paribas may receive distribution fees on which you can obtain further information on specific request. BNP Paribas, its employees or Directors may hold positions in or relationship with their issuers.

By receiving this document you agree to be bound by the above limitations.

© BNP Paribas (2020). All rights reserved.



**BNP PARIBAS**  
WEALTH MANAGEMENT