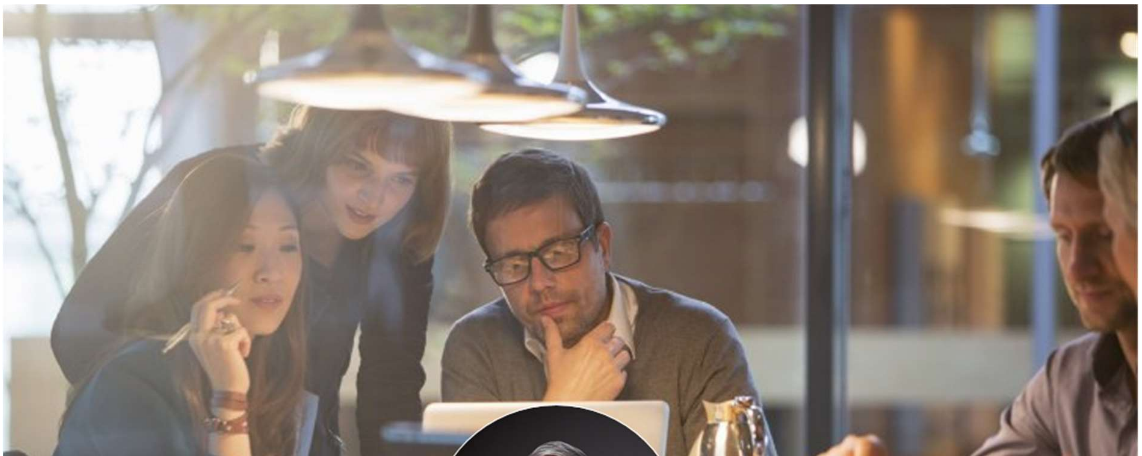
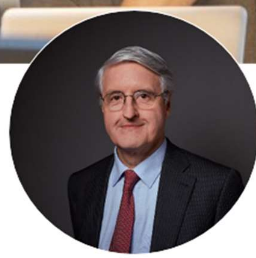
TECH GIANTS POST RECORDS

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.

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