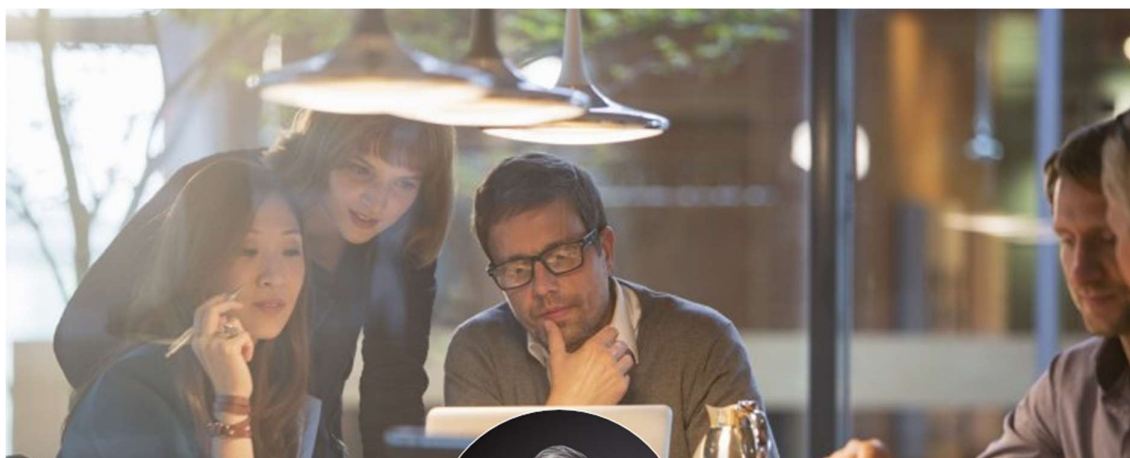


HOPES OF US FISCAL STIMULI

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IN A WORD:

Wall Street posted its biggest weekly rise since July on hopes of a rapid adoption of fiscal stimuli.

Over the week, the S&P 500 was up 3.8% and the Stoxx Europe 600 gained 2.1%.

Back to the negotiating table

President Trump's tweet announcing the breakdown of talks on stimulus measures seems to be completely forgotten. Discussions between Democrats and Republicans have resumed and even relate to a larger amount than the maximum limit previously set by Donald Trump.

A victory for the Democrats does not seem to alarm equities

Three weeks away from the presidential election, everything can still change and the polls can get it badly wrong. But it is interesting to note that when the lead of the Democratic candidate Joe Biden widened significantly after the first televised debate between the two rivals, US equities reacted positively across the board.

The prospect of a clear victory is reducing the uncertainty of a scenario of a challenged vote, and lengthy legal proceedings. In addition, a clear victory would usher in a rapid adoption of

additional fiscal stimuli which would offset the negative effects of the hike in the corporate tax rate from 21% to 28%. Less confrontational relations with China would also be good news for the markets.

A different kettle of fish for bonds

For bonds, on the other hand, a landslide victory for the Democrats would be much less favourable because they would increase deficits and the public debt. So 10-year US Treasury yields edged up to 0.77% and the dollar weakened last week. This steepening of the slope of the US yield curve is helping financial stocks.

Gold regains strength

After hitting an intraday high of \$2,075 on 7 August, the price of the ounce of gold corrected to the downside to \$1,850. Over the past few days, gold has pulled back to above \$1,925.

Dollar weakness and repeated comments by the Fed president that the US central bank might tolerate inflation above 2% for some time is increasing the attractiveness of the precious metal.

The week ahead

On Friday, we will know whether US retail sales continue to grow. After plunging in the first few months of the year as the Coronavirus spread across the country, they reached a record high in June. These figures should help to estimate the resilience of US consumers. This is important because their spending accounts for two-thirds of economic activity. The resurgence of the Coronavirus and the end of additional unemployment benefits of \$600 in July could weigh negatively.

All attention will be on US government support measures. Market hopes are high as evidenced by the rise in SME (small and medium sized enterprises) shares and those in less popular sectors such as materials and industrials. More stocks are participating in the rise, which is an encouraging sign.



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