MACROECONOMIC UPDATE

Japanese Prime Minister Shinzo Abe gave his resignation due to health issues. This announcement surprised the market with stocks falling on the news. He will remain in office until his successor is elected.

Following an in-depth review of its dual mandate, the Fed issued new guidelines. The central bank becomes more flexible regarding its inflation target. Even if the inflation moves above 2%, the Fed might not hike rates as quickly as in the past. This allows the central bank to remain more accommodative for longer.

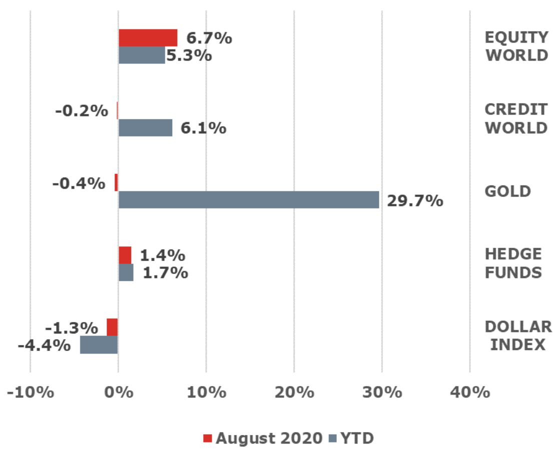
The U.S. China trade deal successfully passed a six-month review with both sides reiterating their commitment to the agreement. It was a relief for the markets as president (candidate) Trump keeps focusing his campaign on blaming China for the virus and the US negative trade balance.

At time of writing, the global number of people infected with Covid-19 amounts to more than 22.4 million. Spain, France and Germany are recording their highest numbers of contagion per day since the lockdown. As long as their domestic healthcare systems are not overwhelmed, we do not expect further large-scale lockdowns.

Democrats and republicans failed to agree on the terms of the next fiscal stimulus. The US congress will not meet before September 4th and if no agreement is reached at the end of September, the country might face another government shutdown. According to JPMorgan Chase and Co. strategists, each one month delay in funding the Federal Pandemic Unemployment Compensation reduces the GDP by 0.4%.
As both parties agree that another round of stimulus is necessary and no one wants to be blamed for a government shutdown prior to the elections, we expect that an agreement will be reached.

GMG'S POSITIONING AND MARKET PERFORMANCES

Equities	US	↑
	Europe	→
	Emerging Markets	→
Fixed Income	Sovereign	→
	Investment Grade Corporate	↓
	High Yield Corporate Bond	→
	Emerging Market Debt Local	↓
Real Assets	Precious Metals	↑
	Real Estate commercial	↓
	Real Estate residential	↑
Currency	US Dollar	→



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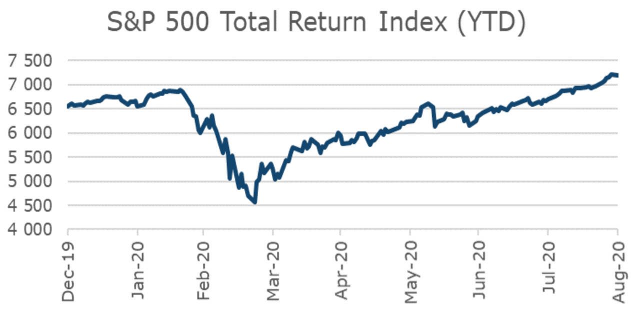
FOCUS: US equities reached new record highs this month despite the ongoing virus threat. Are markets completely decoupled from the real economy?

6 months ago, equity markets plummeted due to the Coronavirus pandemic. Economists adjusted their economic growth forecasts downwards and announced a global recession that could be worse than the global financial crisis.



Year-to-date figures as at 31.08.20

S&P 500 GICS sectors breakdown	YTD Performance
Information Technology	34,82%
Consumer Discretionary	27,13%
Communication Services	15,08%
Health Care	6,03%
Consumer Staples	3,80%
Materials	2,55%
Real Estate	-6,55%
Industrials	-6,75%
Utilities	-8,80%
Financials	-18,74%
Energy	-42,62%

Year-to-date figures as at 31.08.20

Since the lows of March 23rd, the US equity index climbed more than 56%. It is now positive year to date breaching its all-time high established on the eve of the crisis.
This astonishing bull market rally did however not treat all shares equally. Some sectors have been big winners whereas others remain negative year to date as listed in the table above.

Investors have been rewarding companies which are thriving in spite of the health crisis and the lockdown measure implemented worldwide. The digital economy proved to be amongst the most successful pandemic winners. Large technology companies exceeded the analysts' expectations when reporting their revenues in Q2. For example, Apple increased its revenues by 11% and Microsoft by 13% in the second quarter (on an annualized basis).
The latest combined revenues reported by the FAANG+ stocks (Facebook, Amazon, Apple, Netflix, Google and Microsoft) amount to USD 240 billion. This is obviously surprising in a recessive environment.

Considering that FAANG+ stocks weigh 23% of the S&P 500 index and their performance year to date is 52,84% (equally weighted basket), we can now better understand the positive performance of the US equity index despite the crisis.
To illustrate this point at the sector level, Amazon.com Inc represents almost 25% of the consumer discretionary sector's market capitalization. This stock alone contributed to 21,69% of the sector's year to date performance (27,13% as at 31.08.20).

On the opposite side, cyclical sectors such as energy and financials are laggards with -42,62% and -18,74% respectively. Investors remain mindful about the global economic recession. These performances reflect low expectations on a growing world economy, with less energetic demand and central banks supporting their local economies with extremely low rates.

We conclude that markets have not been completely decoupled from reality when looking at the sectors' performance breakdown. Investors have been betting on quality businesses that are able to generate growth in a recessive environment and keeping away from the most cyclically exposed companies.

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