Weekly Market Summary

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Wondering Whether Financial Markets' Newfound Optimism Will Last Through the New Year? Join the Club! (Part II)

Fadi Nasser - Deputy Chief Investment & Treasury Officer

Latest Update on Coronavirus: Confirmed cases last at 75.396 million, with the death toll from the pandemic at 1,670,850. The first Covid-19 shots have been given to more than 1.1 million people in four countries, the start of the biggest vaccination campaign in history and one of the largest logistical challenges ever undertaken. The US FDA will work quickly toward authorizing Moderna Inc.'s Covid-19 vaccine that agency advisors voted Thursday to recommend, Commissioner Stephen Hahn said. Side effects seen in the rollout of the Covid-19 vaccine from Pfizer Inc. and BioNTech SE are leading US regulators to revise fact sheets handed out with the vaccine and bolster instructions for doctors and those that receive the shot.

One of the oddest things about 2020 is how economic sense is being twisted in all sorts of ways to explain what is going on in the global economy and financial markets! For instance, the latest formidable surge in equity and commodity prices remains somehow hard for many market observers to reconcile given the economic damage that remains on display due to Covid-19 restrictions. As we head into the year-end, the subdued market reaction to various pending uncertainties can only be justified, in my opinion, by a sharp disconnect between markets and the economy - a divergence that would soon have to correct (despite economists/strategists' constant reminders that financial markets are by nature forward looking!)

It is often said that hope is not an investing strategy to live by! Yet most - if not all - of the past few weeks' commodity and stock market gains and run to a multi-months high (9-month for oil prices & record highs for equity valuations) have been largely built on hopes: Hopes that the worst of the coronavirus' infections/deaths would soon be behind us, helping to ease lockdown restrictions globally, as vaccines gain governments' clearance whilst first shots are given worldwide; Hopes that a post-Brexit trade deal with the EU could be ready for approval before Christmas as British MPs are put on standby for an extended House of Commons sitting next week; Hopes that US congressional negotiators are closing on a $900 billion Covid-19 aid bill, with "*a few final issues*" that need addressing before an agreement is soon made; and Hopes (surely no one is doubting that one! 😊) that finance ministers and central bankers globally will keep pumping more fiscal/monetary stimulus/liquidity while ensuring long term yields remain at rock-bottom levels or move further into negative territory (also known as the long-lasting "*zombification*" of the global economy prior to the launch of the World Economic Forum's "*Great Economic Reset*")

How long can markets continue just focusing on positives, whilst ignoring potential downside risks, remains to be seen. One can hope that current outstanding economic/political/geopolitical concerns soon fade – further maintaining current elevated valuations of financial assets in place and pushing volatility lower. Otherwise, the risk is high that investors could have ridiculously chased financial assets prices higher lately [the Relative Strength Index (RSI) - which helps investors determine whether various financial asset prices are undervalued or overvalued in the near-term - is currently flashing red, i.e. sits in overbought territory and implies imminent market correction] and will have no choice but to precipitate a price reversal as soon as they realize the disconnection between the economic reality and the valuation of those financial assets.

Below is a summary coverage of the main stories that have shaped markets throughout the week:

***US Fed Powell Sees Light at End of Tunnel & Policy Staying Very Easy*:** US Federal Reserve Chairman Jerome Powell sounded the most optimistic he has been since the coronavirus crisis began in March, saying he expects the economy to perform "strongly" in the second half of 2021 as more and more Americans are vaccinated against the virus, though he cautioned that the next few months would be "challenging" until that occurs (Guru Bill Gates could have delivered a similar message on CNN! Did we really need an FOMC meeting for that?😊) Policy makers last Wednesday voted to keep rates unchanged well into 2022, whilst maintaining monthly bond purchases of at least $120 billion until they see "substantial further progress" in reducing unemployment and increasing inflation. Powell declined to specifically define what inflation level and unemployment rates would trigger a future change in the buying campaign ("Absher", as we'd say in Arabic!)

***Bitcoin Explodes to the Upside*:** Bitcoin breached $23,000 for the first time in history as more investors and prominent Wall Street names piled into the world's largest digital currency, currently up roughly 220% year-to-date (Moderna shares are up a staggering 650% during the same period. Who's really counting?!). As momentum builds, analysts predict more gains ahead. Still, the rally in digital assets continues to polarise opinion, given Bitcoin's history of boom and bust. Proponents argue the cryptocurrency is taking over gold as a portfolio diversifier amid relentless US dollar weakness (inevitably more to come when Janet Yellen takes over as Biden's US Treasury Secretary, but will leave that analysis for a future time) and potential inflationary pressure. Others see speculative fervour that will soon lead to a bust akin to the meltdown three years ago after a similar furious Bitcoin rally in late-December 2017.

***Saudi Arabia Announces a 990 Billion Riyal Budget for 2021*:** Saudi Arabia said on Tuesday that its spending plans for next year would be expansionary, as it leans more heavily on government-controlled funds to make up for cuts to a finance ministry budget hurt by a decline in oil prices and the coronavirus pandemic. The Kingdom will stick to its plan to cut spending by 7.3% in 2021 after its deficit widened considerably this year. With spending projected at 990 billion riyals ($264 billion) and revenues expected to rise to 849 billion riyals ($226.4 billion), the budget deficit would narrow to 141 billion riyals, or 4.9% of economic output (that compares to nearly 300 billion riyals, or 12% of GDP for 2020).

Swiss Defy the US with Pledge to Keep Up Currency Intervention: The Swiss National Bank on Wednesday pledged to push ahead with interventions to rein in the franc, defying an earlier US decision to designate the nation a currency manipulator. The Swiss central bank said it does not engage in "any form" of currency manipulation, and its actions are aimed at helping it ensure price stability. Switzerland has been intervening on and off for more than a decade to keep the franc, which tends to attract investors in times of market stress, from strengthening too much.

Bank of England to the Rescue! The Bank of England kept its monetary stimulus unchanged as it awaits the outcome of trade talks between the UK and European Union, while it provided more support for small businesses to get them through a pandemic that is dragging on for longer than expected. The BOE voted unanimously (9-0) to hold their benchmark interest rate at 0.1% and their total asset purchase target at 895 billion pounds ($1.2 trillion), stressing that they can accelerate or slow bond-buying as needed (my gut feel is that "slowing" is no longer an option 😊). They also extended, for an extra six months until October, a loan program geared toward small and medium-sized businesses.

When Weak Economic Data Fuels Additional Risk-On Trading! US stocks have risen to records overnight after data showed a further slowdown in consumer spending and a sizable jump in weekly initial claims. The logic? Weaker data strengthen investors' perception/bets that Congressional leaders would be in a better position to clinch a bigger size deal on federal spending. The S&P 500 climbed yesterday for a third day, whilst the US dollar extended its slump, after jobless claims rose to 885,000 versus an estimate of 818,000. Elsewhere, Retail Sales dropped by more than forecast in November (-1.1% m/m decrease versus a Bloomberg survey of economists calling for a smaller 0.3% decline), and the prior month was revised to a decline, indicating the economic rebound is hitting bumps amid record coronavirus cases.

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