

# Flash

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### What happened?

- US equity markets had their worst day since March, with the S&P500 dropping almost 6%. European markets closed earlier, but the Stoxx50 was still down 4.5%. While plenty of explanations are being looked at for this sell-off in light of recent strong performance, the simplest explanation might be the best: the market needed a breather.
- One other argument is that the sobering account of the recovery by the Federal Reserve highlighted that we are unlikely to see a perfect V-shaped recovery. Yes, activity picked up in May, and the worst is likely to be behind us, but the recovery is going to be staggered and gradual and it will take a long time to get back to pre-crisis levels. Markets had been 'priced for perfection' and a reminder that perfection was unlikely took some of the recent froth off.
- Some US states are seeing COVID cases go up, but we do not believe that a second wave is afoot – nor that this caused the sell-off. In Europe and Asia, reopening has not led to a spike in cases so far. In a number of other US states, this has also not been the case. In addition, we do not think cases is the right number to look at, as the objective of confinement was to flatten the curve and make ongoing cases manageable for our healthcare systems, which we appear to have achieved. Finally, the fear around a second wave is a second confinement, and we do not believe that is likely. It would be very difficult in terms of messaging, in terms of businesses, and in terms of populations complying.
- The big question is where do we go from here. We had been saying for some time that we expected some corrections, but that the downside had become more limited given a still-bearish consensus, high cash levels, and a broadening rally. We maintain this view and for now, do not believe this is the start of a new collapse. However, we had chosen to remain prudent for this very reason, and we still believe that it is too early to become too aggressive in portfolios.

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