

# Flash

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### What happened?

- Equity markets finished another strong week, with the S&P500 up 4.9% and the Stoxx50 up 10.9%, buoyed by much better than expected non-farm payroll data in the US on Friday. While the consensus expected a further drop of 7.5 million, the US labour market actually added 2.5 million jobs in May and the unemployment rate fell back to 13.3%. While this still leaves the labour force down 20 million jobs since March, it is an encouraging sign that the US recovery started in May.
- The equity rally continued to broaden last week, with value and cyclical sectors outperforming, including small caps, automobiles and financials, and the US dollar retreating further. We believe this rotation can continue as Europe and cyclical sectors play catch to US quality and growth, but we choose to remain prudent on equities overall and maintain a neutral allocation for now, as disappointment risks remain.
- The European Central Bank took a page out of the Federal Reserve's book and announced a bigger than expected EUR600 billion top-up to its PEPP program as well as an extension of the program to June 2021. This led to higher yields in German Bunds, with the 10-year rising to -0.27% (from -0.45% on Monday), while the spread of Italian debt over Germany compressed further to 169bp (from a wide of 263bp in April) as the proposed Recovery Fund and the ECB support peripherals.
- US sovereign yields rose in the risk-on week as well, with the 10-year Treasury yields rising 25bp to 0.90% last week. As a result, the US yield curve is at its steepest since 2017 as short rates remains anchored around 0%. This week's Federal Reserve meeting will be in the spotlight as markets will seek reassurance that the Fed will remain ultra-accommodative for a long time, despite recent better-than-expected data. Credit spreads tightened further over the week, with US IG at 146bp, EU IG at 139bp, US HY at 536bp and EU HY at 496bp (from a crisis wide of 373bp, 253bp, 1100bp and 919bp, respectively).
- OPEC+ agreed to extend production cuts by one month to end of July, with stricter efforts to ensure compliance, lifting oil prices. WTI is trading at USD39 per barrel and Brent at USD43 per barrel. Gold retreated last week, but, at USD1690 per ounce, remains above key resistance levels.
- As the deadline to extend the transition period for Brexit past December 2020 nears, Brexit talks between the EU and the UK did not advance last week, both sides still far on most key topics. Nonetheless, GBP continued its recent advance against USD at 1.2696, though it did retreat against EUR throughout most of last week before bouncing back to 1.12 this morning.
- As the rally continues and broadens, equities are pricing in a perfect V-shaped recovery, suggesting that disappointment risks remain. However, given a still bearish consensus and high cash levels, we believe that the downside has become more limited, even if corrections are likely. We do not like chasing this rally and choose to remain prudent for now, although we are positioned for the sector rotation.

### What we are watching

- We look at high frequency data to see if reopening is translating into re-growing. And we keep an eye on deaths and intensive care unit cases to ensure the virus remains contained as we gradually reopen. In Europe in Asia, so far so good. We also look to see if recent encouraging news on treatments materialises.
- We continue to watch for bankruptcies and defaults, though the Fed in particular is doing everything in its power – and beyond – to limit risks of contagion.
- We will look at earnings estimates as they continue to be revised down. After a sharp drop in earnings in Q1, expectations for Q2 are even worse and could weigh on sentiment.
- We keep an eye on credit and funding markets to see if massive central bank measures, both in the US and Europe, help ease the recent stress. For now, we believe that central banks will succeed in keeping systemic risks low to prevent a credit crisis.

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