

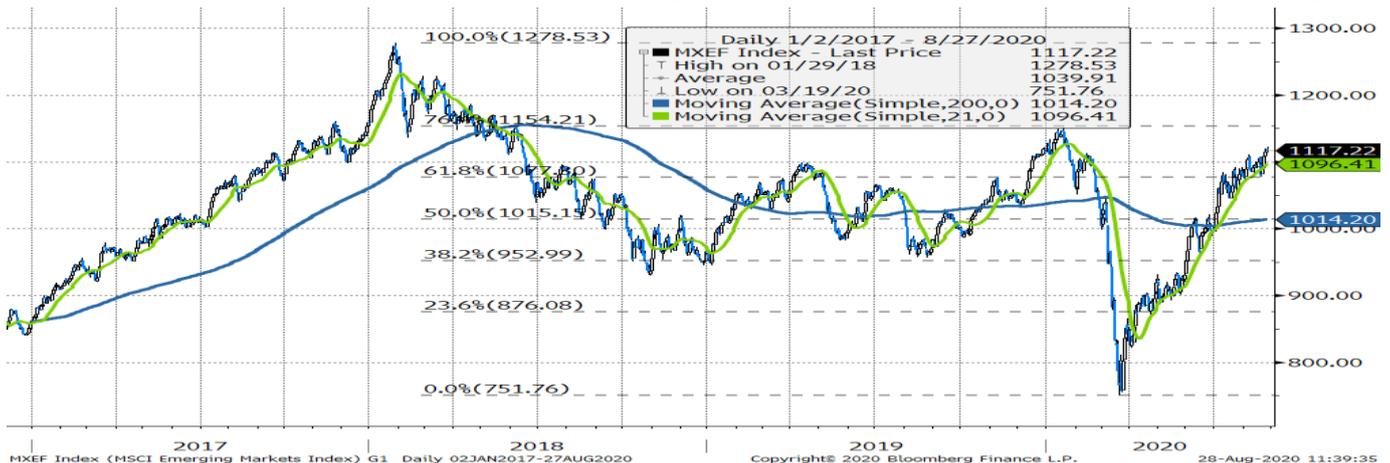
## Global Markets Minesweeper

August 28, 2020

**Global Markets Analysis**  
INVESTMENT PORTFOLIOS  
MANAGEMENT DIVISION

In the current week, the S&P 500 index posted consecutive historic highs (27/8: 3,501.38), driving the MSCI all countries world index at historic high (27/8: 585.48) for the first time since February. Monetary and fiscal expansion and initial results towards coronavirus vaccines continue to support the main equity markets. The S&P 500 is overperforming the world excluding US equity index, in multiple time frames (including month to date in August). The Federal Reserve is expected to continue monetary easing for long and hold the Fed funds rate at 0%-0.25% for even longer period. This view was reinforced this week, as the Fed defined its long-term monetary policy goal as average inflation targeting (2%) over time and said that will monitor shortfalls of employment from maximum level. The focus of the Fed will be on maintaining monetary easing, in order to facilitate the gradual drop of unemployment rate from the relatively high level of 10.2% (7/20, historic average 1948-2020: 5.8%).

The USD/CNY dropped at a low (28/8: 6.863) since January 2020. The 36-month rolling correlation of the monthly return of the MSCI emerging index versus the monthly change of the USD/CNY is at around -0.65, denoting that once the USD depreciates versus the yuan (monthly basis), it is usually in parallel with monthly increase of the emerging stock index. US - China officials have recently confirmed that the first stage of the trade deal is valid. The emerging index has risen at a high (27/8: 1,122.79) since January 2020. Resistance is at 1,155 (Fibonacci retracement 76.4%: 1,279-752) and at 1,229 (27/2/18 high), support at the area of 1,077 -1,095 (21-day average).



Source: Bloomberg

The chief economist of the ECB P. Lane said (28/8) that the ECB is ready to add to monetary stimulus, if needed. US 10-year yield increased at a high (0.787%) since mid-June and the German 10-year yield at a high (-0.377%) since June 17, as inflation may gradually increase and the economies have started expanding.

### The week ahead:

**Eurozone** inflation estimate for August and unemployment rate for July will be announced on September 1. In the **US**, the ISM manufacturing index (1/9) may have increased in August at a high (54.4, July: 54.2) since March 2019. The ISM services (3/9) may have slightly declined in August, however at a level (57.2, July: 58.1) still well above the historic average (54.6). US unemployment rate may have declined in August (4/9) for fourth consecutive month. The expected level of unemployment in August (9.9%) is much above the historic average (5.8%). In **China**, the official manufacturing and services PMI indices are both expected (31/8) in expansion of the respective sectors in August. The Caixin manufacturing and services indices will be announced during the week (1/9, 3/9).

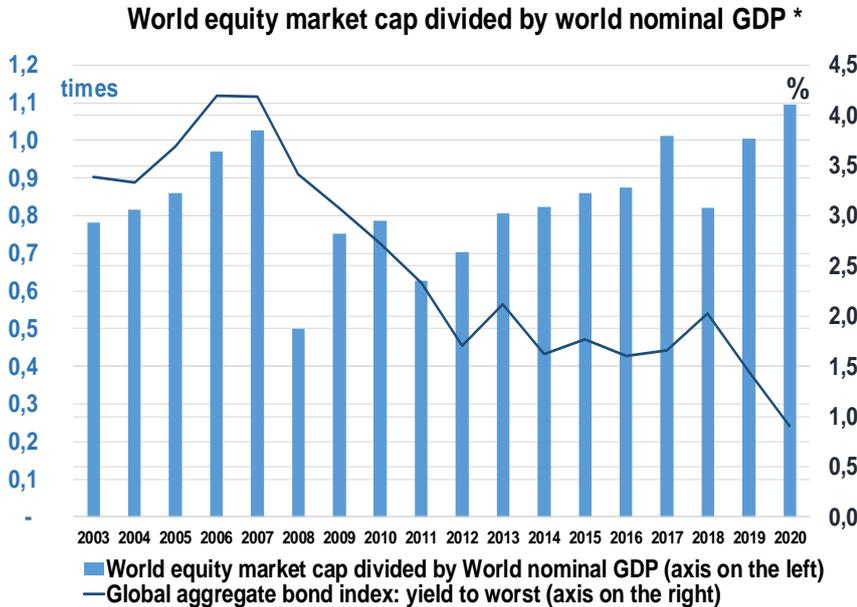
**The next week includes key macroeconomic announcements. US employment figures may show improvement. In the US, the S&P 500 index has recently posted consecutive historic highs, contributing to the rise of the world equity index at historic high. In the short-term, pull-backs in main equity markets may not be excluded, as September tends to be seasonally (on-average) weak month and as initial signs of overbought conditions are evident. Beyond short term moves, from a broader mid-term perspective, the improved investment landscape seems solid, as it is based on a variety of developments, including monetary, fiscal easing, economic recovery and progress towards vaccines for fighting the pandemic.**

### Quote of the Week:

The Chairman of the Fed said (27/8): "Fed will seek inflation that averages 2% over time and will assess shortfalls of employment from maximum level".

**Global Markets in Charts**

**The world equity market capitalisation has reached historic high level of \$90.6 trillion (27/8).**

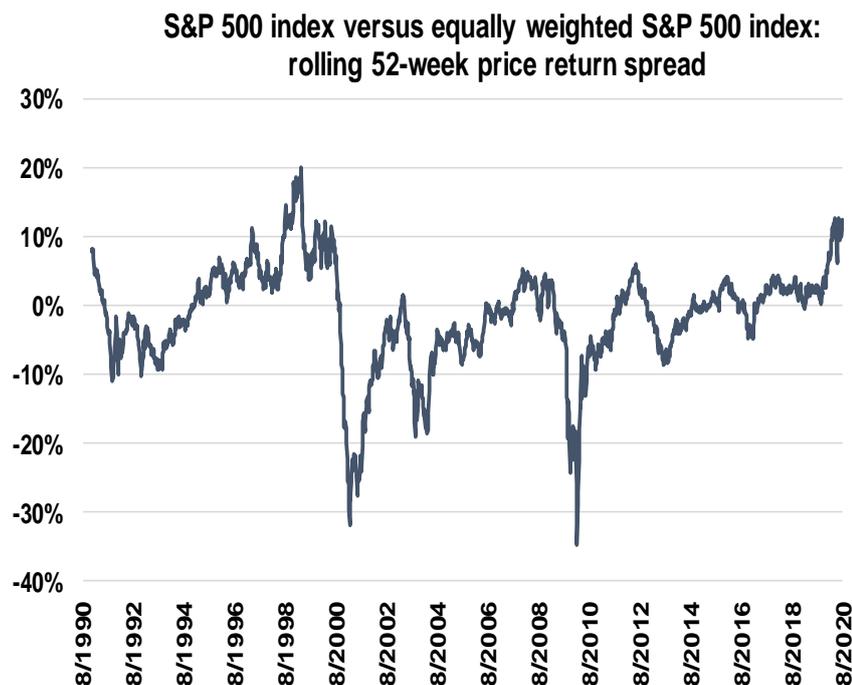


\*for nominal GDP of 2020, the assumption used is a drop of -5% versus the nominal GDP in 2019. For market capitalization in 2020, the date used was as of 27/8/20.

Monetary and fiscal stimulus and the anticipation that effective vaccines may be available in the next months have supported the rise of world equity market capitalization at the historic high level of \$90,6 trillion (27/8).

Dividing the world equity market cap by the world nominal GDP, it can be seen that the ratio is elevated, above 100% (105% if nominal GDP of 2019 is used, 110% if nominal GDP drop of 5% is assumed for 2020). However, worries around “overvaluation” have eased, as bond yields remain moderate, supporting equity market sentiment from mid-term perspective. Even after the recent upwards reaction in yields, the Bloomberg Barclays global aggregate bond index (IG) has yield of 0.93%, which is lower than that at the end of 2019 (1.45%).

**The S&P 500 index has risen at historic high and the spread of 52-week return versus the equally weighted version of the index is close to the highest in more than twenty years.**



Source: Bloomberg

The S&P 500 index has recently posted consecutive historic highs (23/3-27/8 total return: 57%). The equally weighted version of the S&P 500 index has also recovered strongly since March (23/3-27/8: 56%), but is a bit below (almost -6%) its own historic high. The spread of 52-week (annual) price return of the S&P 500 minus the 52-week return of the equally weighted version of the S&P 500 is at 12.5% (21/8), which is close to the highest (5/2020: 12.7%) since April 1999. This is indicative of some concentration on a few “winning stocks” in the last on year and may imply that a pause or mild corrective move cannot be excluded in the short term.

However, the fact that both the S&P 500 index and its equally weighted version have almost similar returns since March 23 and have performed closely in the last 10 years (annualized 10-year returns: 14.9% vs 13.2%) indicates that the US market provides broad and diversified equity exposure.

**Global Markets Minesweeper**
**Event Risk Calendar, August 31 - September 4, 2020**

Monday 31/8						
Date Time	Country	Event	Period	Survey	Prior	
31/8 02:50	JN	Industrial Production (MoM)	Jul P	5.00%	1.90%	
31/8 02:50	JN	Retail Sales (MoM)	Jul	-2.50%	13.10%	
31/8 02:50	JN	Retail Sales (YoY)	Jul	-1.70%	-1.30%	
31/8 04:00	CH	Manufacturing PMI	Aug	51.2	51.1	
31/8 04:00	CH	Non-manufacturing PMI	Aug	54.2	54.2	
31/8 08:00	JN	Housing Starts (YoY)	Jul	-12.50%	-12.80%	
31/8 08:00	JN	Annualized Housing Starts	Jul	0.799m	0.790m	
31/8 08:00	JN	Consumer Confidence Index	Aug	28.5	29.5	
31/8 15:00	GE	CPI (MoM)	Aug P	0.00%	-0.50%	
31/8 15:00	GE	CPI (YoY)	Aug P	0.10%	-0.10%	
<b>Eco Event</b>	US	Fed Vice Chair Richard Clarida takes part in a virtual discussion (16:00)				
Tuesday 1/9						
Date Time	Country	Event	Period	Survey	Prior	
1/9 02:30	JN	Jobless Rate	Jul	3.00%	2.80%	
1/9 03:30	JN	Jibun Bank Japan PMI Mfg	Aug F		46.6	
1/9 04:45	CH	Caixin China PMI Mfg	Aug	52.5	52.8	
1/9 10:50	FR	Markit France Manufacturing PMI	Aug F		49	
1/9 10:55	GE	Germany Manufacturing PMI	Aug F	53	53	
1/9 10:55	GE	Unemployment Claims Rate SA	Aug	6.40%	6.40%	
1/9 11:00	EC	Eurozone Manufacturing PMI	Aug F	51.7	51.7	
1/9 11:30	UK	Money Supply M4 (MoM)	Jul		1.00%	
1/9 11:30	UK	Markit UK PMI Manufacturing SA	Aug F	55.3	55.3	
1/9 12:00	EC	Unemployment Rate	Jul	8.00%	7.80%	
1/9 12:00	EC	CPI (MoM)	Aug P		-0.40%	
1/9 12:00	EC	CPI Estimate (YoY)	Aug	0.20%	0.40%	
1/9 12:00	EC	CPI Core (YoY)	Aug P	0.80%	1.20%	
1/9 16:45	US	Markit US Manufacturing PMI	Aug F		53.6	
1/9 17:00	US	ISM Manufacturing	Aug	54.4	54.2	
<b>Eco Event</b>	US	Fed Governor L. Brainard will take part in a virtual discussion (20:00)				
Wednesday 2/9						
Date Time	Country	Event	Period	Survey	Prior	
2/9 09:00	UK	Nationwide House PX (MoM)	Aug	0.50%	1.70%	
2/9 12:00	EC	PPI (YoY)	Jul		-3.70%	
2/9 15:15	US	ADP Employment Change	Aug	900k	167k	

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2/9 17:00	US	Factory Orders (MoM)	Jul	3.80%	6.20%	🌩️	
2/9 17:00	US	Durable Goods Orders (MoM)	Jul F		11.20%		
2/9 17:00	US	Durables Ex Transportation (MoM)	Jul F		2.40%		
<b>Eco Event</b>	US	Cleveland Fed President L. Mester will discuss the U.S. outlook (19:00)					
		<b>Thursday 3/9</b>					
<b>Date Time</b>	<b>Country</b>	<b>Event</b>	<b>Period</b>	<b>Survey</b>	<b>Prior</b>	🌩️	
3/9 03:30	JN	Jibun Bank Japan PMI Services	Aug F		45		
3/9 04:45	CH	Caixin China PMI Services	Aug	54	54.1		
3/9 11:00	EC	Markit Eurozone Services PMI	Aug F	50.1	50.1		
3/9 11:30	UK	Markit/CIPS UK Services PMI	Aug F	60.1	60.1		
3/9 12:00	EC	Retail Sales (MoM)	Jul	1.70%	5.70%	🌩️	
3/9 12:00	EC	Retail Sales (YoY)	Jul	3.70%	1.30%		
3/9 15:30	US	Initial Jobless Claims	29-Aug		1006k		
3/9 15:30	US	Trade Balance	Jul	-\$51.7b	-\$50.7b	🌩️	
3/9 16:45	US	Markit US Services PMI	Aug F	-	54.8		
3/9 17:00	US	ISM Services Index	Aug	57.2	58.1	🌩️	
<b>Eco Event</b>	US	Chicago Fed President Evans discusses economy and monetary policy (19:30)					
		<b>Friday 4/9</b>					
<b>Date Time</b>	<b>Country</b>	<b>Event</b>	<b>Period</b>	<b>Survey</b>	<b>Prior</b>	🌩️	
4/9 09:00	GE	Factory Orders (MoM)	Jul	6.00%	27.90%	🌩️	
4/9 09:00	GE	Factory Orders WDA (YoY)	Jul	-4.90%	-11.30%		
4/9 15:30	US	Change in Nonfarm Payrolls	Aug	1518k	1763k	🌩️	
4/9 15:30	US	Change in Private Payrolls	Aug	1375k	1462k		
4/9 15:30	US	Unemployment Rate	Aug	9.90%	10.20%	🌩️	
4/9 15:30	US	Average Hourly Earnings (YoY)	Aug	4.50%	4.80%		
4/9 15:30	US	Labor Force Participation Rate	Aug		61.40%		

Global Markets Analysis

+30 210-3268410

marketanalysis@alpha.gr

Maria Koutouzi  
 Ioannis Kouravelos, CFA  
 Konstantinos Anathreptakis  
 Dimitris Nikitopoulos

maria.koutouzi@alpha.gr  
 ioannis.kouravelos@alpha.gr  
 konstantinos.anathreptakis@alpha.gr  
 dimitrios.nikitopoulos@alpha.gr

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