

# FLASH BOURSIER

## PBOC PILES ON THE LIQUIDITY AMID PANDEMIC

### Overview

#### Highlights:

S&P500 near  
all-time high

Lower-ever  
yields on  
corporate  
bonds

The world stood there with bated breath, waiting to see if Covid-19 cases would start rising sharply again. Now they have. The UK last week took the sudden move to order the quarantine of travellers entering the country from the Netherlands, France or Malta. This is having a huge effect on the European holidaymaking industry.

Meanwhile, relations between Washington and Beijing are deteriorating further. The White House is still going after Chinese firms TikTok and Wechat through executive orders. Both companies are accused of being a threat to US national security. The Chinese reportedly have 90 days to sell TikTok's US operations to an American company. Relations had already been tense enough as it was, given the economic fallout from the pandemic – as illustrated the record-breaking 7.8% plunge in Japan's second-quarter GDP.

Donald Trump's score is flagging ahead of the presidential elections in November, especially after the announcement of Senator Kamala Harris as Joe Biden's running mate gave a massive boost to his campaign. According to the polls, 54% of Americans approve of this choice as vice-president.

Despite all the bad news, the S&P 500 lies just a whisker away from the all-time high set last February. Cyclical stocks are outperforming in Europe, while global market capitalisation has crept above the total GDP figure, clocking in at USD 87.9 trillion – a possible further sign that equity markets are overheating. Apple edged closer

to USD 2 trillion in market value. Another sign of possible excess has been the surge in the share prices of micro-caps, spurred on by a new type of investor who does not seem interested in fundamentals. The main reason for these developments is the abundant liquidity provided by central banks. Take the People's Bank of China, for example, which recently injected the equivalent of USD 100 billion into its banking system. This might also pave the way for a rate cut.

Precious metals were last week hit by profit-taking. Gold fell by around 7% as Russian publicised a breakthrough with its vaccine, Sputnik V. Yields on government bonds rose, with the US Treasury rebounding to 0.7%. Volatility is on the increase, so gold is expected to maintain its uptrend.

The corporate borrowing spree continues as companies issue a record amount of bonds at the lowest yields ever. Last week, for example, Alphabet issued six bond tranches totalling USD 10 billion, with maturities ranging between 5 and 40 years. Apple followed suit. It is interesting to note that these companies, with their significant cash flows, do not in principle need extra liquidity.



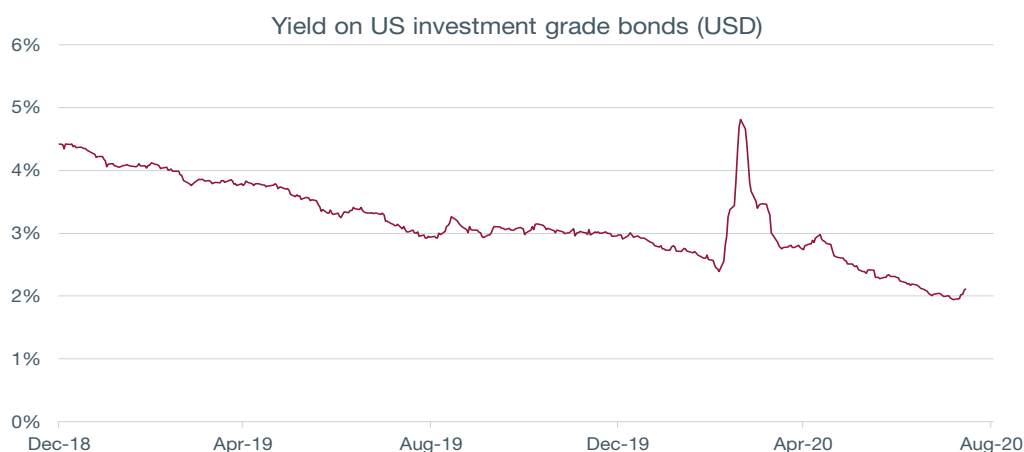
The SMI is still in consolidation mode and should remain so this week. Resistance is situated around 10400 points.

### Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	0.91	1.08	10'163.60	3'305.05	12'901.34	4'962.93	5'935.98	3'372.85	11'019.30	23'289.36	1'093.16
Trend	➔	➔	➔	➔	➔	➔	➔	⬆️	⬆️	⬆️	➔
%YTD	-6.05%	-0.83%	-4.27%	-11.75%	-2.62%	-16.98%	-21.30%	4.40%	22.81%	-1.55%	-1.93%

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## US INVESTMENT GRADE CREDIT: LOWEST YIELD = HIGHEST PRICE



Source: Bloomberg Barclays USD Liquid Investment Grade Corp Yield-to-Worst

In July, the average yield on the debt of higher-grade companies fell below 2% for the first time ever after almost hitting 5% during the market rout back in March (see chart).

Unambiguous support from the Fed, which is hoovering up this paper directly on the market, has given IG credit a shot in the arm. The Barclays broad index of bonds has reverted to its highest level since the crisis began, gaining even more quickly than the S&P 500. The asset class has now posted a performance of more than 5% in USD terms year to date compared with +1% by the S&P 500, which incidentally has made up its lag in record time.

Extremely low interest rates are prompting companies to refinance now and borrow ahead of time.

Alphabet (Google's parent) is no exception. Despite having cash in its coffers, the Californian giant raised USD 10 billion last week. About one-quarter of the amount was borrowed over 10 years, for a miserly coupon of 1.1%, which is an even lower than the 1.5% Amazon secured for the same term earlier this year. Interestingly, USD 5.75 billion (the lion's share of this particular borrowing) has been earmarked to finance ESG-labelled projects.

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