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Losses for risk investments - Update from the Investment Division Outlook.

Erste AM Communications



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What's happened since last Friday ?

The markets for risky assets ended last week with losses. The US leading index, the S&P 500, closed Friday at -0.6% and European stock markets were down 1% to 2%. The risky bond markets also suffered losses and credit spreads on high-yield corporate bonds rose.

The main reasons were the escalating tensions between China and the US. Following the closure of the respective consulates in Houston and Chengdu, US Secretary of State Mike Pompeo further intensified the tone between the two countries. In a speech, he said that "a new alliance of democracies" should be formed to push back "the hegemony plans of the Chinese Communist Party".

The tensions between the two great powers were compounded by disappointing economic data in the US. Initial claims for unemployment benefits in the U.S. were 1.4 million last week, up from the previous 1.3 million.

The Purchasing Managers' Indices also failed to meet expectations. For example, the Purchasing Managers' Index for the service sector was 49.6 (consensus: 51). The service sector in particular is suffering from the recent restrictions in some states, which were made necessary by the increased number of new infections with Covid-19.

Yields on credit safe government bonds fell last week due to investors' increased risk aversion. The yield on 10-year government bonds in the U.S. is 0.58% and in Germany -0.45%. Gold also rose. In today's Asian trading session, the price of gold climbed to a new all-time high of over USD 1930.

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