OCTOBER 2020

Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Economic & Political news

Despite losing momentum at the start of the month, economic data in the US has held up against a backdrop of rising Covid19 cases and lack of progress on the next fiscal package. Consumers kept spending, boosting retail sales 1.9% MoM in September (vs +0.7% expected), despite having to draw down savings. The US economy grew at a record 33.1% in Q3 in annualized terms (vs 31.4% Q2 decline), recovering two-thirds of the ground lost in the first half of the year. Europe is experiencing a worse deterioration on the health front and a number of countries, including Germany, France, the UK and Italy, have had to announce new lockdowns, weighing on sentiment. Already, the Eurozone's Composite PMI fell 1 point in October to 49.4 (back into contraction) due to a decline in services activity. In China, data has continued to surprise on the upside, with a 4.9% expansion in Q3 (vs +3.2% in Q2), imports hitting a record in dollars terms (+13.2% YoY in September) and exports following suit (+9.9% YoY), helping to fuel domestic demand. Q3 earnings season is going well in general, with estimates being steadily improved thanks to upward revisions and an increasing number of companies providing guidance again. The European Central Bank kept its ultra-accommodative stance unchanged, while suggesting further support in December and pushing for additional fiscal stimulus. On the political front, Joe Biden was able to maintain his lead in the polls ahead of President Trump, somewhat reducing the odds of a contested election and supporting expectations for a larger fiscal package after the elections. Brexit negotiations continued without significant progress but with a more optimistic tone in key issues such as a level playing field on domestic subsidies and fisheries.

Equities

Developed equity markets suffered across the board in October as virus cases rose again and investors priced out additional stimulus ahead of the elections. The US market however, managed to hold up better than the European one, where the second COVID wave is hitting the hardest. On the other hand, Asian and Pacific markets posted positive returns as the health crisis seems to be under better control compared to the rest of the world. Emerging markets rose 2.1%, outperforming developed markets significantly as they declined 3%. The S&P500 lost 2.7% and the Stoxx 600 was down 5.1%. The NASDAQ fell 2.3% in October (still +32.2% YTD), extending its losses after big tech Q3 earnings failed to impress investors. More broadly, the DAX sold off 9.4%, FTSE MIB 5.6%, the CAC40 4.4% and the FTSE 100 4.8%. The best performing developed markets were the S&P New Zealand (+2.9%), the Hang Seng (+2.8%) and the S&P Australia (+1.9%). The worst performing developed market equity indices were the DAX, the Swiss Market (-5.9%) and the Belgian Market (-5.8%). The best sectors were Utilities (+1.9%), Communication Services (+1.1%) and Finance (-1.2%). The worst performing sectors were Energy (-5.3%), Information Technology (-5.1%) and Health Care (-4.9%).

Fixed Income

The US yield curve steepened as chances of a "Democratic Sweep" rose, as markets priced in larger fiscal spending over the coming years. Conversely, the German yield curve flattened as the Old Continent's growth prospects have sharply deteriorated. Sovereign bond yields remain well behaved, including credit spreads, thanks to accommodative central banks, which kept expanding their balance sheets. US and European IG spreads continued to narrow, 11bp and 2bp respectively, as did the US HY spreads, which narrowed 8bp. However, as Europeans started their winter lockdowns, EU HY spreads widened 9bp. Throughout the month, US 10-year Treasury yields were up 19bp to 0.87%, Bunds were down 11bp to -0.63%, OATs down 10bp to -0.34%, Gilts up 3bp to 0.26% and BTPs down 11bp to 0.76%.

Emerging Markets

Emerging markets continued to outperform the rest of the world thanks to a better handling of the health crisis. However, significant differences arose among regions with the MSCI EM Asia index standing out as the winner with a 3.3% rise in October, while the MSCI EM ex Asia index declined 3%. China's domestic demand continued to catch up to its manufacturing sector, as such, retail sales rose 3.3% YoY in September – the biggest increase year to date. The People's Bank of China left its key policy rate unchanged but undertook some technical measures to allow more flexibility in CNY trading, which appreciated to its highest level in two years. The best performing emerging markets (in local currency) were the Merval index (+9.8%), the PSEi Philippines (+7.9%) and the Jakarta index (+5.3%). The worst performing emerging markets were the Moex Russia (-5.8%), the FTSE South Africa (-5.1%) and the Saudi Arabia index (-4.6%).

FX & Commodities

The US dollar remained stable over the month as measured by the DXY index, which increased just 0.2% to 94. The Euro gave up some ground, decreasing 0.6% to 1.16 against USD. Conversely, GBP was more stable, increasing 0.2% to 1.29 against USD. More broadly, the US dollar strengthened 8.2% vs the TRY, 3% vs the BRL and 1.9% vs the AUD. USD weakened 0.8% vs JPY, 0.4% vs CHF, 1.4% vs CNY and 1.5% vs CLP. Gold consolidated around the high USD1800s per ounce, declining 0.4% to USD1878 per ounce over the month. Oil prices remained under pressure as the demand will probably stay subdued for some time given renewed European confinement measures and abundant supply. WTI declined 10% to USD35.8 per barrel and Brent fell 8.5% to USD37.5 per barrel. Silver spiked 1.8%, copper increased 0.8% and coffee declined 5.7%.

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