September 2020

Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Economic & Political news

Economic data has continued to indicate recovery, albeit at a slower pace due to the looming US elections, lack of US fiscal follow-through and the rise in infection cases in Europe. Consumer spending in the US has so far remained strong, most likely thanks to the fiscal stimulus and pent-up demand, and the unemployment rate has continued to decline, though at a slower rate. The manufacturing sector remains in good shape but the services sector, gauged by its latest PMI survey, has started to stagnate as the Cares Act 2 is becoming necessary. In addition, the executive orders that President Trump approved in early August in order to extend Covid relief, expired mid-September, raising the question of how long consumption will hold up. The rebound in Eurozone business activity has stalled as its services PMI slipped below 50, i.e. to contraction levels, hitting a four-month low and echoing the surge in coronavirus cases seen in some countries over the month. But, although France, Spain, the UK and the Germany southern region Bavaria have announced new containment measures aimed at curbing infections, governments have so far ruled out widespread lockdowns. The Federal Reserve (Fed) kept interest rates unchanged and indicated it will remain near zero through at least 2023. Moreover, the central bank tempered its expectations for the size of the contraction in the US in 2020 from 6.6% to 3.7%; and so did the Organisation for Economic Co-operation and Development to its world growth forecasts. The European Central Bank (ECB) also left its interest rates unchanged and recalled that it had no specific exchange rate target when asked regarding the EUR appreciation seen over the summer. Early in the month, France announced a EUR 100 billion fiscal stimulus package (4% of its GDP), which will be disbursed over two years and will dedicate 30% of the funds to the green sector. The UK unveiled a new, but smaller, extension of the current GBP 39 billion jobs-support program, which was set to end October 31 and will now last six more months. Meanwhile, Prime Minister Boris Johnson worsened the already delicate negotiations with the European Union by threatening to walk away from parts of the Brexit Withdrawal Agreement. This briefly led GBP to test its post-referendum lows against EUR – around 1.05 EUR per GBP – before regaining some footing.

Equities

September was a turbulent month for equity markets. Looming risks on the macro and politic fronts, such as the US elections (and their chances of being contested), the rise in infections in Europe and the possibility of a hard Brexit, have increased volatility. The S&P500 saw four consecutive weeks of declines – the longest such stretch in over a year, briefly sending the index into correction territory, i.e., down more than 10% from its recent peak, to an initial support level around 3,200 points. On a monthly basis, the S&P500 was down 3.8% and the Stoxx 600 down 1.4%. Since September's initial sell-off was driven by the Tech sector, the Nasdaq was one of the worst performing indices in developed markets, losing 5.1% over the month (still +25.4% YTD). Developed markets fell 3.4%, underperforming emerging markets, which declined 1.6%. More broadly, the Dax declined by 1.4%, FTSE MIB by 3%, the CAC40 fell 2.7% and the FTSE 100 by 1.5%. The best performing developed markets were Sweden (+3.5%), Norway (+3%) and Japan (+0.7%). The worst performing developed markets were the Hang Seng (-6.4%), the Tel Aviv (-6.1%) and the Nasdaq. The best sectors were Utilities (-0.5%), Industrials (-0.6%) and Materials (-0.7%). The worst were Energy (-13.8%), Financials (-5.5%) and Communication Services (-5.4%).

Fixed Income

Interestingly, core sovereign bond yields remained well behaved during September's equity market correction. Central banks did not announce any new measures but assured markets that the current low interest rates are here to stay. At the same time, major central banks' balance sheets kept expanding to unprecedented levels: jointly, the FED, the ECB, the Bank of Japan and the People's Bank of China balance sheets amount to USD26.3 trillion as of 30 September, up 4% in September and 35% year over year. US and EU IG spreads widened 8bp and 5bp respectively, as did the US and EU HY spreads, widening 47bp and 26bp respectively. Throughout the month, US 10-year Treasury yields were stable, falling just 2bp to 0.68%, Bunds retreated 13bp to -0.52%, OATs fell 15bp to -0.24%, Gilts dropped 8bp to 0.23% and BTPs fell 23bp to 0.86%.

Emerging Markets

Emerging Asia continues to lead in Covid management. Recent figures for world trade volumes show the biggest rise on record in Q2, attributing much of the increase to Asian countries. China's manufacturing PMI for September came in line with expectations, at 53 vs 53.1 in August, and industrial production grew 5.6% in August (vs 4.8% in July), both signalling continued expansion. At the same time, China's household consumption seems to be gaining some steam – retail sales ticked up for the first time in 2020 (+0.5% in August). Moreover, Turkey's central bank raised its key policy rate by 200bp to 10.25%, what should offer some reprieve to the lira, which is down over 30% YTD. Emerging market performance was dragged down by major developed market indices, but they showed some resilience. The MCSI EM Index decreased 1.6% and the MSCI EM ex Asia, -3.6%. The best performing emerging markets (in local currency) were Turkey (+6.2%), Saudi Arabia (+4.7%) and Mexico (+1.7%). The worst performing emerging markets were Argentina (-11.9%), Indonesia (-7%) and Thailand (-5.5%). Demand for EM debt remained robust, helping spreads prove resilient. Both EM sovereign and corporate spreads have remained relatively stable, with EMBI BD tightening 2bp (to 360bp), CEMBI BD IG widening only 8bp (to 250bp) and CEMBI BD HY 23bp (to 620bp) in September.

FX & Commodities

The US dollar bounced back as volatility rose and investors sought safety. As measured by the DXY index (a basket of currencies of US trade partners), USD strengthened 1.9% to 93.9. EUR appreciated 1.8% to 1.172 against USD and GBP depreciated 3.4% to 1.292 against USD. More broadly, the dollar strengthened 1.9% vs CHF, 5% vs TRY, 2.5% vs BRL, 1.3% vs CLP and 1.7 vs AUD. USD weakened 0.4% vs JPY and 0.8% vs CNY. Oil prices have continued to be dependent on the health situation and global demand prospects, as such WTI prices dropped 5.6% over the month, ending at USD40.2 per barrel and Brent prices fell 9.6%, ending at USD40.9 per barrel. Noteworthy is that gold did not play its traditional safe haven role, falling 4.2% to USD 1,885 per ounce, as both real rales and USD rose. Silver dropped 17.4%, copper lost 0.3% and coffee fell 14%.

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