INFORMATION FOR INVESTMENT PROFESSIONALS

Market updates

Investment team updates | 6 November 2020

US equities

Market & Economy

- The S&P 500 was down in the last week of October by 5.6%, its biggest weekly fall since March, while the Nasdaq fell by 5.5%. The sell-off was largely blamed on worsening coronavirus trends and more stringent lockdown measures coming back into force across Europe in an attempt to deal with the surge in cases. The failure of Congress to agree on a stimulus package before the election also weighed on the mood.
- In the US, headlines have been dominated by the election, with no clear winner at the time of writing but Joe Biden apparently edging towards victory. Equities rallied this week (to 5 November) after markets bet that the “blue sweep” – whereby the Democrats would take control of both houses of Congress and the Presidency – would not transpire. Indeed, with a chance that the Senate could remain in Republican hands, tech stocks in particular have gone up as the prospect of a split legislature make it less likely that tech antitrust legislation will be passed, or at least not to the same extent.
- US coronavirus cases have hit new highs, with the US recording in excess of 100,000 new cases in one day for the first time on 5 November. Whether or not the country follows many European countries down the path of more draconian measures remains to be seen, although there would likely be significant resistance to such a move.

Earnings

- Q3 earnings season continues to be better than feared. Beforehand earnings were expected to decline about 22% year-on-year. But now with more than 80% of companies having reported, the expected decline in earnings per share is only 10% as businesses have beaten estimates by 19% in aggregate.
- Last week was the peak of earnings with the big tech names reporting. On the whole they beat forecasts and delivered growth – between Apple, Amazon, Alphabet, Facebook and Microsoft, revenues increased 18% year-on-year. However, the share prices, with the exception of Alphabet, tended to reverse. There were a few stock specific reasons for this: despite doing well in other areas, Apple missed expectations on iPhone sales; forward guidance was light for Amazon; and Facebook’s cost guidance and warnings of slower North America user count were not well received.

- Alphabet reacted better though, following a slightly weaker Q2. Some of the price reaction could also be to do with year-to-date performance, where Alphabet has so far trailed the other names, up 16% in 2020 compared with Amazon's 74% rise going into earnings.

Election

- As election results came in late on Tuesday 3 November and early Wednesday 4, the prospect of a Democrat landslide receded from view as the Republican performance turned out to be a lot stronger than polls indicated. With no official winner still – although a Biden victory seems the more likely – the prospect of a contested result remains in view. With the Senate race also going down to the wire, it remains to be seen whether the Republicans will retain control. A split Congress will stymie the power of the ruling party and make it harder to pass more radical legislation and reduce the probability of a more substantial fiscal package to deal with the coronavirus fall-out.

European equities

- Eyes were turned towards the US election this week, with the prospect of a Joe Biden win potentially heralding a more Europe-friendly administration, whereas four more years of Donald Trump could see continued unpredictability. A divided Congress hampers domestic legislative change whoever wins.
- Virus cases and mortality are rising alarmingly throughout Europe, but the second-phase lockdowns are slightly less brutal than in the spring, and optimism for a new-year vaccine grows.
- The restrictive measures and political uncertainty have prompted slightly weaker markets, with higher-quality franchises winning and travel, leisure and energy losing – all of which favours our style.
- Q3 results have been optically encouraging, but many companies are silent or hedging bets on prospects for Q4 and 2021 – particularly in cyclical sectors.

Fixed income

Markets

- Credit markets were also very robust: based on BofA Merrill Lynch Bond Indices global IG started the week at 131bps and ended Thursday 5 November at 124bps, while Euro High Yield started the week at 494bps and ended Thursday at 454bps.
- Core government bonds started the week weakly, with the US 10-year yield at 0.86%, but ended it at 0.77%.
- The US dollar also weakened over the week against the euro, starting at €1.164 and moving out to €1.84 on Thursday 5th.

News

- In the US the Federal Reserve kept interest rates unchanged, as well as its government bond buying ($120 billion a month), with the need for fiscal stimulus noted.

- The country has also topped 100,000 Covid cases in a day.
- In Europe, the European Commission expects -7.8% GDP growth in 2020, against an expectation of -8.7% in summer). The manufacturing PMI rose to 54.8 in October from 53.7 in September.
- In the UK, where England has gone into a month-long lockdown, the Bank of England is to increase bond buying by another £150 billion. The country is set to face contraction in Q4 with unemployment rising to 7.75% next year.

Multi-asset

- With votes in the US election still being counted in a number of key states, the probability of a contested election has risen.
- Overconfidence around what this election means for markets over the medium term carries serious risk. But vote tallies in key Senate races are consistent with no overall Democrat control even in the event that Joe Biden wins the presidency. As such the abolition of the filibuster, feared by tech investors wary of the prospect of regulatory hardening, looks less likely.
- The prospect of a very substantial fiscal package that would boost nominal GDP – raising demand for goods and services, dampening deflationary fears, and pushing bond yields higher – looks lower with a split Congress. As such, initial market reactions that have seen bond yields fall and quality growth equities retaining their leadership look reasonable for the time being.
- We remain comfortable with our asset allocation and have made no major changes thus far to positioning.

Note: all data as at 5 November 2020, unless otherwise specified. Source: Bloomberg.