INFORMATION FOR INVESTMENT PROFESSIONALS

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Market updates

Investment team updates | 13 November 2020

US equities

- Last week (ending 6 November) the US market rallied following the election results which indicated that the Republicans had performed better than expected, ending hopes of a "Blue Wave" by the Democrats. With the Democrats on course to win the presidency and the House of Representatives, the market focused more on the likelihood of a split Congress with the Republicans in pole position to retain control of the Senate pending a run-off for two seats in Georgia in January. A split Congress was taken positively by markets, as it will make it harder for the Democrats to introduce measures like higher corporate tax rates and increased regulation, which would be viewed negatively. Attention will now turn to another stimulus package to support the ravaged economy. Agreement was not reached before the election, but such a deal remains important for the economic recovery story.
- The S&P 500 was up strongly by 7.3% last week (ending 6 November) for its best week since early April, while the Nasdaq was up even more strongly at 9%. As the likely path of the election results became clear, it was the tech and healthcare names which led the market higher.
- On Monday 9 November news broke that Pfizer and BioNTech's vaccine candidate against Covid-19 had proven highly efficacious at phase 3 trials, greatly increasing hopes for the early, widespread deployment of a vaccine. While there are still many hurdles to cross before it – or a rival vaccine – are given to the general public, this news precipitated a big comeback for many of the beaten-up names and sectors that have been so badly affected by the pandemic-induced downturn. This led to value outperforming growth as money was taken out of the year-to-date winners and put to work in more value and cyclical names which would benefit from a vaccine and a resumption of normal economic activity.
- Q3 earnings are mostly behind us now with earnings continuing to outpace expectations. Going into earnings season expectations had been for earnings per share to contract by nearly 22% year-on-year. However, now that nearly all large cap companies have reported, actual earnings per share have only declined by 8.5%, with more than 80% of companies beating their projections. Expectations for Q4 earnings per share have also been revised up by 2.2% since the start of earnings season (all data Credit Suisse as at 12 November).

European equities

- The week was dominated by the continuing electoral disputes in the US and the good news about the Pfizer BioNTech Covid-19 vaccine trial. Other firms have vaccines in test at the moment, and the market surged when this news was publicised.
- Monday 9 November and Tuesday 10 saw the biggest rotation since 2018 in favour of value stocks, with energy and banks leading the market while technology and healthcare were weak. This diminished an otherwise strong year-to-date, but the following days have seen some retracement as concerns resumed over Brexit, the pace of vaccine approvals and US political uncertainties.
- Covid-19 infections, deaths and hospitalisations are worryingly high in Europe, but peaking in some places as second-phase lockdowns bite.
- The impact of stock-specific news has been dwarfed by these wider market trends, but generally Q3 results have been encouraging, with unanswered questions remaining over how many companies will fare over Q4 and 2021.

Fixed income

Markets

- Credit spreads, based on BofA Merrill Lynch Bond Indices, started the week strongly and maintained that across the week, with Global IG ending Thursday 12 November at 117bps, and Euro High Yield ending at 417bps.
- Core government bond yields rose and curves steepened, with US 10-year at 0.98% on Monday 9 November before reaching 0.88% on Thursday 12, a recovery from the sell-off earlier in the week.
- In currency, Thursday 12 saw the GBP give back the gains it has made across the week on protracted Brexit talks, ending at $1.317.
- Oil rose slightly across the week, starting at $38.1 a barrel and ending Thursday 12 at $41.5.

News

- There was more bad Covid-19 news as the spread of the pandemic continued apace, with the US clocking up 1 million cases in a week, the UK exceeding 33,000 in a day, and Italy 38,000. There was, however, good vaccine news with Pfizer revealing a vaccine noted for around 90% efficacy, though there is outstanding data to be seen. In the US, Dr Fauci, director of the National Institute of Allergy and Infectious Diseases, sees healthcare workers in the country getting the vaccine by end of the year, and lower risk generally by April 2021. The UK projects a similar timeline for healthcare workers.
- Still in the US there were signs of weaker Inflation, with CPI at 0.0% month-on-month and 1.2% year-on-year, which is 1.6% year-on-year at a core level. The country also saw falling jobless claims to a post-pandemic low of 709,000.
- In the UK, GDP saw an all-time best expansion of 15.5% in Q3, albeit following on the heels of -20% in Q2. However, this increase slowed into end-quarter – a trend that will continue.
- Also in the UK the unemployment rate rose to 4.8% with three million layoffs.
- Despite Joe Biden winning the US election with the most votes in US history, Donald Trump is refusing to concede defeat, and the Senate outcome is still unclear. The latter will probably remain the case until early January 2021.

Multi-asset

- Recently reinforced coronavirus restrictions in Europe are already weighing heavily on activity, and rising cases in Italy and elsewhere may lead to further measures. But we see some scope for optimism
- Q3 earnings season has thus far delivered some impressive beats to expectations, suggesting companies are adapting quickly to a Covid world.
- The results of the Pfizer BioNTech vaccine trial offer light at the end of the tunnel, despite some logistical hurdles before it can be rolled out
- Having seen bond yields fall and growth equities retain their leadership in the days following the election result, cyclical sectors bounced strongly on positive vaccine news, as bond yields reversed their falls.
- How this sharp sector rotation might persist is yet to be seen. Although most forecasts (including our own) had already assumed some vaccine progress around this time, and so may not meaningfully change, there is no doubt the development has removed a large tail risk.
- For now, the place we increasingly want to allocate risk in multi-asset portfolios is Asia, where very strong earnings growth is anticipated, and where an attractive risk premium (associated with chaotic relations with the US) should diminish with a Joe Biden presidency.

Note: all data as at 12 November 2020, unless otherwise specified. Source: Bloomberg.