INFORMATION FOR INVESTMENT PROFESSIONALS

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Market updates

Investment team updates | 30 October 2020

US equities

Market & Economy

- US equities were slightly weaker for the week ending 23 October, with the S&P 500 down by 0.5% and the Nasdaq down by 1.1%. The sell-off has continued into this week, largely on account of stricter lockdown measures in Europe putting the brakes on the recovery, as well as a rising case count in the US. The prospect of another fiscal stimulus package being approved by Congress has now faded and hopes are turning to the prospect of stimulus from the new administration.
- Communication services stocks did best last week while growth lagged behind value.
- Initial jobless claims and continuing claims data came in better than expected this week, getting back to the lowest levels since mid-March, although the economy still has a long way to go to replace the total number of jobs lost in the pandemic.
- Q3 GDP surpassed expectations at an annualised rate of 33.1% and 7.4% on a quarter-on-quarter basis. This was the best quarterly growth ever recorded, however by contrast, Q2 was the worst on record.

Earnings

- This week saw the peak of Q3 earnings season and the theme so far has been “better than feared”. By the end of Wednesday 29 October just shy of 50% of the S&P 500 by market cap had reported earnings. For those companies which have done so, earnings have exceeded estimates by 18% in aggregate, with 83% of companies beating on the bottom line.
- Expectations for the whole of Q3 earnings, based on those companies which have reported, are for an EPS year-on-year decline of 13.5%, a significant improvement on expectations before earnings season.
- Due to the high beat rate we have generally seen that they are not being rewarded as in previous quarters, but misses are being punished, as are companies trading in line with expectations.

- Many of the big tech companies reported strong results this week. Amazon's quarterly revenue was up by 37% on the same quarter last year, to a record level of $96.2 billion, while its earnings tripled to $6.3 billion. The growth was driven by continued demand for its ecommerce services and in its cloud computing operation AWS. Alphabet saw a return to growth in digital advertising revenue in Q2. For Apple, iPhone sales fell from a year earlier following a delay in the launch of its new phone. Revenue overall rose modestly, however, due to a strong increase in sales of laptops and iPads during the pandemic. However, with the share prices of these companies having risen already so much this year, Apple, Amazon and Facebook were down in after-hours trading.

Election

- Democratic candidate Joe Biden retains a healthy lead over Donald Trump in the polls going into the election on Tuesday, while the polls also favour a Democrat majority in the Senate. Despite the difficulties that the pandemic has posed for holding an election, turnout is predicted to very high, boosted by an expansion in provision of early voting and a record number of mail-in votes. Even before election day, the number of postal votes submitted has already exceeded the total for the 2016 election. The electoral college will likely be won or lost in a few key battleground states. The gap in the polls has decreased the likelihood of a contested result, with attention now turning to the stimulus measures which it is hoped the new administration – of whichever party – will unveil.

European equities

- European markets have been weaker owing to the growing restrictions introduced to address a second wave of the Covid-19 virus.
- Q3 results have shown a mixed picture – some sectors such as autos and banks have seen some unexpectedly good results, beating much-reduced expectations. However, a major concern is the lack of visibility for sales and earnings in 2021.
- German software company SAP announced a major change in strategy under its new CEO, involving a strategic switch in favour of its cloud business. The impact this will have on short- and medium-term results has disappointed investors, though the potential strength of the long-term business model is probably greater.
- Markets are continuing to seek a balance between the negative impact of the virus and associated lockdowns, and the supportive effects of loose monetary and fiscal policy. Such a backdrop tends to favour longer-term franchises with more visible and sustainable returns, helping our relative performance, though short-term rallies from oversold "value" counters continue to occur.

Fixed income

Markets

- Equities are now on course for the worst weekly decline since March this year, prompted by fears around the re-emerging coronavirus and its economic effects, with both the EuroStoxx and the S&P tumbling. Credit spreads have widened throughout the week.
- Core government bond yields have been reasonably flat, with the US 10-year starting the week at 0.81% and ending it (29 October) at 0.82%.
- FX have spent the week largely unchanged, while oil prices tracked a little lower.

News

- Thursday 29 October saw the US set a new record for new daily virus cases at 89,000. Global cases are now in excess of 45 million, with deaths at 1.18 million. Both Germany and France announced partial lockdowns
- In the UK, Covid-19 cases are doubling every nine days.
- ECB president, Christine Lagarde, has encouraged governments to increase spending during the pandemic, signalling further stimulus expansion. This followed double digit GDP gains for France (18.2%) and Italy (16.1%), which beat consensus. Germany is expected to follow suit.
- In the US Boeing announced 7,000 job losses. Consumer confidence, meanwhile, was at 100.9, down from 101.3 last month.
- Amy Coney Barrett was voted into the Supreme Court, and the Republicans now have a 6-3 majority. Turning to the election, Biden is still eight or nine points ahead in polls, with a 73% chance of a Democratic Senate.

Note: all data as at 29 October 2020, unless otherwise specified. Source: Bloomberg.