INFORMATION FOR INVESTMENT PROFESSIONALS

COLUMBIA THREADNEEDLE INVESTMENTS

Your success. Our priority.

Market updates

Investment team updates | 2 October 2020

US equities

Economy

- US equities as measured by the S&P 500 were lower last week (ending 25 September) for the fourth consecutive week, though only marginally so at -0.6%, while the Nasdaq was actually up by 1.1%.
- Energy was the weakest sector followed by materials, while technology and consumer discretionary stocks had the best performance. Some tech stocks bounced back and resumed their leadership following recent pressure. Apple, Microsoft and Amazon were all in positive territory.

Q3

- This week (ending 2 October) rounded off Q3 and the overall picture has been positive with a second straight quarterly gain since the sell-off earlier in the year. The S&P 500 was up by 8.5% across the quarter and the Nasdaq did even better, ahead by 11% despite a notable pull back in September. Growth continued to outperform value, benefiting from secular tailwinds arising from the "stay at home" theme and aided by central bank liquidity. Consumer discretionary was the top performing sector with particular strength in homebuilding and house-related stocks, while energy was the only sector in negative territory.
- The quarter was marked up by recovery in the labour market, aided by the massive stimulus packages and expectations for a vaccine breakthrough in the near term.

Supreme Court

- President Trump has moved ahead with his desire to fill the Supreme Court vacancy before the election and nominated Amy Coney Barrett to the post. While there is no legal impediment to this move, it has been treated with disdain by Democrats after their nominated candidate was blocked by the Republican Senate before the election in 2016.
- Should Barrett be installed on the Supreme Court it would cement a 6-3 conservative majority and would have potential implications for the Affordable Care Act (ACA). When it last came before the Supreme Court in 2012 the act was upheld. However, with a new justice there is a higher probability of repeal. We would expect to see managed care companies under pressure should the act be struck down, as many have seen greater demand for their services under the ACA.

- Big tech companies are also in the spotlight. A more conservative court could be a positive for the sector as conservative justices have been more reluctant to expand regulatory oversight in the past.

Election

- Trump testing positive for Covid-19 has the potential to change the election schedule, with doubt clouding further debates and rallies. Before this the race had tightened somewhat over the summer, but Democratic nominee Joe Biden maintains a lead in many key battleground states.
- Given a meaningful uptick in absentee and postal voting it is possible we may not have a winner declared on election night as traditionally happens. There is no constitutional mandate for a winner to be declared straightaway; by law, states have until 8 December 2020 to register their vote count for the electors to present to Congress.
- Options markets are currently pricing heightened volatility, even looking as far out as the inauguration, which adds further weight to the possibility of a contested or unclear result and a lack of clarity on the timing of a declared presidential winner.
- As a team we are focused on company-specific fundamentals, so portfolio positioning is generally neutral to either a Biden or Trump win.

European equities

- President Trump catching Covid-19 changes the US election campaign – debates are impossible for someone in quarantine, as is more general campaigning. The uncertainties have caused European markets to dip, following Wall Street's lead. It seems likely that Trump's nominee for the Supreme Court will be forced through, so a Republican-dominated court has the chance to help Trump dispute a potential Joe Biden win. This could create further global uncertainty.
- Brexit expectations are for a hard or no-deal outcome, and yet again negotiations are running close to the wire. Both this and the virus response is putting the UK government under pressure, as elsewhere in Europe.
- In Europe coronavirus cases continue to rise and travel corridors close. Economic data shows a slowing recovery and the danger of rising employment looms.
- The European market has dipped, following international markets. High-quality franchises continue to be favoured.

Multi-asset

- Risk assets have weakened in recent sessions, seemingly reflecting a myriad of short-term concerns, from "fiscal cliffs" in the US and UK as unemployment benefits lapse, to the upcoming US elections, second waves of Covid-19, rising odds of a disorderly Brexit and fuller valuations.
- However, we see medium-term support for risk assets, from a reasonable equity risk premium to favourable policy developments (from the US Federal Reserve and the European Central Bank) and the possibility of a vaccine in coming months.
- Notwithstanding bi-partisan support in the US for "getting tough on China", tensions at present seem to be cooling off.
- On balance, we feel our asset allocation portfolios are well positioned for longer-term growth opportunities in risky assets and no changes were made over the week.

Fixed income

Markets

- Markets settled into a more positive tone at quarter end. So in Q3, on a risk-adjusted basis, high yield outperformed investment grade, which outperformed emerging markets. European IG was the strongest individual market overall (-20%), while US HY outperformed Euro HY. Spreads remain mostly well wide of the start of the year. It's interesting to compare this to equities, with the S&P 500 up 4% year-to-date.
- Turning to this week (commencing 28 September) specifically, core yields were steady in the US with the 10-year running at 0.65%-0.66%, and have essentially been in a 0.6%-0.8% range for most of the period since the end of March.
- Credit spreads were little changed throughout the week, with Global IG tightening marginally from 139bps to 138bps on Wednesday 30 September and remaining there on Thursday.
- Equities have moved very little over the week, with the S&P creeping up 0.5% on Thursday.
- FX is little changed, while oil moved around 3% lower on Thursday 1 October to $37 a barrel.

News

- In the US both President Trump and the First Lady have tested positive for Covid-19.
- Initial jobless claims fell to 837,000, which is the lowest since the crisis began – although the pace of improvement has slowed materially.
- Despite a more conciliatory tone between the Democratic House speaker, Nancy Pelosi, and the US Treasury secretary, Steven Mnuchin, there has not been any tangible progress in negotiations around a fiscal stimulus plan.
- Tuesday 29 September saw the first presidential debate, an acrimonious affair which resulted in YouGov suggesting Joe Biden leads Donald Trump with 48% versus 41%, the same as the pre-debate polling.
- US consumer confidence jumped higher this week, and pending home sales were also robust, up 8.8%. However, Disney announced on 30 September that it was cutting 28,000 jobs.
- Inflation is low across Europe, with Germany, Italy and France seeing levels at -0.4%, -0.9% and 0% respectively.
- The eurozone unemployment rate rose to 8.1%, but is distorted by Furlough schemes.
- Covid-19 fatalities exceeded 1 million globally on 29 September and show little sign of slowing, while the UK experienced its highest ever daily cases figure on the same day. As such, cases continue to rise across Europe, and the incidence of localised lockdowns is also increasing.
- In China, manufacturing and services PMIs both rose more than expected and are in positive (expansion) territory.

Note: all data as at 1 October 2020, unless otherwise specified. Source: Bloomberg.