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# Market updates

Investment team updates | 16 October 2020

## US equities

### Market

- US equities enjoyed a strong performance last week (ending 9 October), with the S&P 500 up by 3.8% and the Nasdaq up by 4.6%. Small caps, as measured by the Russell 2000, did even better: up by 6.4%. This was the biggest weekly rise for the S&P 500 in three months.
- All sectors were in positive territory with healthy contributions to returns from both growth and value factors.
- Materials stocks performed well, as did energy names following a rally in crude. The tech sector also had a good week with particular strength in semiconductor companies.
- Positive headlines concerning stimulus helped to drive the market with the focus now turning to a possible stimulus plan after the November election should Democrat candidate Joe Biden win and take control of both houses of Congress. The rancour in Congress about getting a bipartisan deal done before the election continued, with no breakthrough imminent. Despite a recent offer of a $1.8 trillion relief package from the White House, there is still a gap in expectations between Republicans and Democrats.
- As Biden's lead has widened over Donald Trump in recent days, the possibility of a contested election has also receded, giving more of a boost to risk assets.

### Earnings

- Q3 earnings season is underway this week, kicked off by the big banks.
- As of 14 October, 11.4% of the S&P 500 by market cap had reported results. Based on these, expectations from Credit Suisse are for a year-over-year earnings decline of 19.1%. Excluding cyclicals, this improves to a year-over-year decline of 4%. This is a sequential improvement from the 32% EPS decline in Q2. For the year as a whole, expectations are for an earnings decline of 20.8% compared to 2019.
- Among those that have reported, bank results have generally been very favourable despite the impact of the pandemic on their businesses. JP Morgan recorded a rise in profits of 4% over the same quarter a year ago, despite the pandemic. Goldman Sachs also made money in Q3 and beat estimates in the process. Generally, the banks have been boosted by increased revenues from trading during the market volatility and lower than expected provisions for bad loans in Q3. Also, the big banks came into this present downturn in much better shape than the recession of 2008-09 when many were overleveraged and close to failure.

### M&A

- Morgan Stanley has agreed to acquire fund manager Eaton Vance for $7 billion. This should be accretive with $150 million of cost savings, and the combined outfit will have $1.2 trillion of assets under management and annual revenue of $5 billion. Asset management is the smallest of Morgan Stanley's four business areas, contributing 10% of revenue last year. But this deal will help it to bulk up in this area and continue its journey from a transaction-driven firm to a fee-driven firm (now 60% fees).
- Advanced Micro Devices (AMD) is in talks to acquire chipmaker Xilinx in a deal worth in excess of $30 billion as consolidation continues in the semiconductor industry. AMD's share price has surged nearly 90% this year, taking its market cap beyond $100 billion, as it has seen increased demand for the chips which power PCs and games consoles. The rise in its share price has given it extra leverage to utilise its stock as currency in the takeover.

## European equities

- Spikes in virus infections dominate the headlines. These have proved bad news again for hospitality and for airlines, where capacity cutbacks and redundancies have been stepped up. Certain areas of luxury, however, have held up.
- Brexit continues to dominate in the UK/ This could be further complicated by an Irish-American Joe Biden win in November's US election, as the indications show he is more pro-European and Boris Johnson's closeness to President Trump will not help.
- M&A has picked up in Europe – Unicredit is contemplating seeking a Frankfurt quote for its non-Italian business, while KPN may fall to private equity.
- Our year-to-date performance remains strong as the focus on quality has boosted returns – value-oriented managers continue to suffer.

## Fixed income

### Markets

- Markets ended last week (9 October) quietly and started this week much the same, until a small "risk-off" day on Tuesday 13 October, seemingly without any key reason aside from perhaps a lack of progress in US fiscal talks. So in credit spreads Global IG started the week at 130bps and ended Thursday 15 October at the same level, meaning they are -6% quarter-to-date (QTD), while the European High Yield started the week at 463bps ending it slightly wider at 477bps, although they are only -3% QTD (based on BofA Merrill Lynch Bond Indices).
- Core government bond yields are mainly unmoved: the US 10-year started the week at 0.76%, had a strong day on Tuesday 13$^{th}$ moving to 0.72% before ending Thursday 15$^{th}$ at 0.73%.
- Despite starting the week just 1% off all-time highs, equities were slightly weaker by the end of the week, especially Europe. Energy stocks rose slightly, however, on rising crude prices.
- Sterling recovered slightly this week with Boris Johnson seemingly backing down from his Brexit talks deadline.

## News

- The coronavirus situation is getting much worse in Europe, though in a semi-reversal of the first wave Italy is now lagging the UK, France and Netherlands. In the UK a tiered restrictions system was announced after the week ending 9 October saw more than 100,000 confirmed cases, and Saturday 17 October sees London join areas of the north in Tier 2. Both the UK and France have seen cases in excess of 20,000 a day, while Germany and Italy are around 6,000-7,000.
- In the UK unemployment rose to 4.5% in August which was worse than expected, and while retail sales are up 5.6% year-on-year this strong demand may be short lived.
- In the US the jobs situation is also worsening, with the highest number of weekly jobless claims in nearly two months (around 900,000) announced this week. It's also looking unlikely that anything will get done on the fiscal front ahead of November's election, according to Secretary of the Treasury Steven Mnuchin. CPI inflation data rose 0.2% this week to 1.4% year-on-year, about in line with expectations but boosted by rising used car prices.
- Also in the US, company results season begins. JPMorgan announced a ROE of 15% and Citigroup 6%. Goldman Sachs reported around a 30% increase in trading revenue, the Bank of America did less well.
- Joe Biden's lead over President Trump increased to 12pts, according to a Washington Post/ABC poll on 12 October, which equates to an 86% chance of victory and a 69% chance of taking the Senate as well.
- In Europe car sales jumped 1.1% year-on-year this week, the first positive number in 2020. Eurozone industrial production, meanwhile, was up 0.7% month-on-month in August, which was slightly less than expected. In Germany the ZEW confidence survey was weaker than expected.

# Multi-asset

- This week's data has reinforced the trend of stalling economic recovery, as US jobs improvements slowed to a crawl and optimism has been replaced by concern about what the winter might bring.
- Adding to this is worry over the likelihood of a fiscal deal being done. We don't expect an agreement to be reached this side of the election.
- Meanwhile the UK fiscal response was not enough to avoid a disappointing August GDP print.
- Our focus this week was on Asia, a favoured equity region for us, and where views remain strikingly positive. China in particular is seen to have taken advantage of this crisis, deepening focus towards domestic consumption and creating (remarkably) favourable policy conditions for domestic technological progress.
- No changes were made to regional equity preferences, where we combine select cyclicality through emerging Asia with quality growth in the US.

Note: all data as at 15 October 2020, unless otherwise specified. Source: Bloomberg.