INFORMATION FOR INVESTMENT PROFESSIONALS

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# Market updates

Investment team updates | 9 October 2020

## US equities

### Market

- US stocks were higher last week, following four weeks of declines: the S&P 500 and the Nasdaq were both up by 1.5%. Small caps, as measured by the Russell 2000, were up 4.4%. This was in spite of a fall on Friday following news of Trump contracting coronavirus. Since then, stocks have been on an upward trajectory this week and have got back to the highest levels since early September. Talk of another stimulus package has been positive for risk assets though it's unclear whether it will be possible to sign it off before the election, especially as there is still a wide disparity between Democrats and Republicans on the size of the stimulus.
- Some of the more defensive sectors performed best last week as cyclicals generally outperformed growth and momentum stocks, with money also moving into smaller cap stocks. Real estate stocks performed best, up by nearly 5%, followed by utilities. Energy stocks were the only negative sector, declining along with crude.
- ISM data remained in expansion territory with the services sector coming in particularly strong at 57.8 – beating estimates, which has aided the recovery theme. However, labour market progress seems to be stalling.
- The Vix volatility index remains elevated, though it has come down slightly in recent days. Although the market seems to be more sanguine about the prospect of a Democrat sweep at the election now, the chance of a contested election and the ensuing market volatility remains.

### Q3

- We also rounded off Q3 last week. The S&P 500 gained 8.5% in the quarter which, together with Q2, has been the best two-quarter gain for the S&P since 2009, up by over 26%. While the Nasdaq has gained 45% over the same period.

### Trump

- News that Donald Trump and a number of people in his close entourage, including his wife, had contracted Covid-19 moved the market downward on Friday. Following the weekend in hospital, Trump left earlier this week to continue his recovery at the White House.
- In terms of the impact on portfolios, this is most likely to play into Democrat hands and increase the likelihood of a Biden victory on the margin. It calls into question Trump's ability to effectively campaign in the final four weeks of the campaign. We are not expecting any significant impact from this latest development as we have a fairly neutral positioning to election outcomes, be that either a Democrat or Republican victory.

## European equities

- The faltering European recovery and rising Covid-19 infection rate is hampering cyclical stocks. Hospitality stocks and airlines still face a bleak future short and medium term.
- Low interest rates and stimulation will boost long-term assets, especially our compounders, so a growth and quality-oriented style still looks set to thrive.
- The implications of a potential Biden win are a focus – we should expect higher US taxes but a continuing tough stance towards China. Relations with Europe might be set to improve.
- Brexit negotiations are still difficult to read, but “no deal” remains a risk while the UK government is more focused on the virus.
- Our focus remains in high-quality business models which will survive this crisis well. While we recognise valuations are stretched in some areas, and have taken action to address this, a sustainable recovery in poor-quality value stocks is unlikely.

## Fixed income

### News

- In US politics, 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. But a softening in stance later in the week suggests a possible minor fiscal stimulus pre-election.
- 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.
- Covid cases continue to pick up in Europe, with partial lockdowns beginning – a negative for the economy.

### Markets

- Credit markets have been stronger. Global investment grade spreads, for example, were 5% tighter in the quarter to date (by the close of play on 8 October), while US high yield spreads were 8% tighter quarter-to-date and emerging market dollar spreads 5% tighter.
- Government bonds remain unchanged. This against a backdrop of rising equity markets, led by the S&P 500.
- In the Eurozone, industrial production in Germany fell by 0.2% month-on-month (worse than expected, while Euro area composite PMI (IHS Markit Eurozone Composite PMI) was revised higher for September 2020 to 50.4 from 50.1.

Note: all data as at 8 October 2020, unless otherwise specified. Source: Bloomberg.