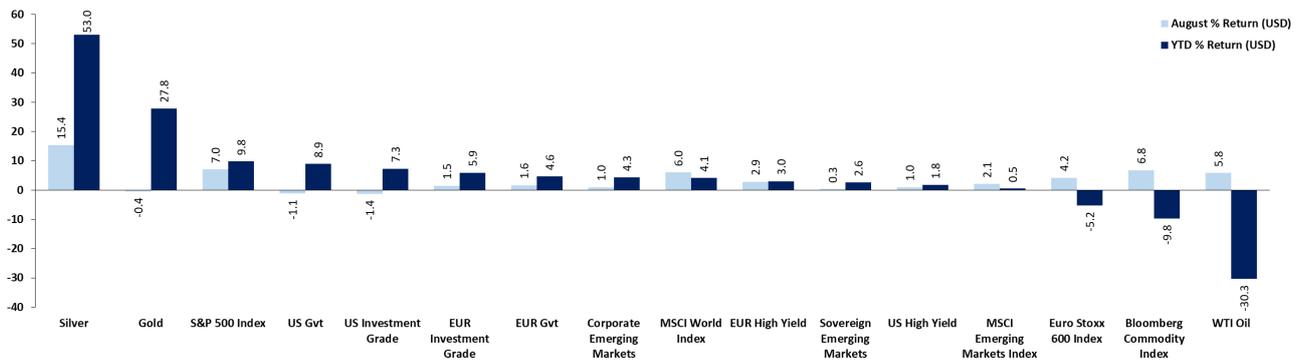


Monthly Market Wrap-Up—August 2020

Continued political tensions between the US and China, an uncertain outcome to the US presidential election, the absence of agreement on a new wave of fiscal stimulus in congress, Brexit negotiations going nowhere, new waves of travel restrictions following rising Covid cases globally, and a redefined mandate at the Fed are only some of the news that moved markets this past months. Gold, the best performing asset so far this year, yielded the top spot to silver which continues to rise on higher inflation expectations and the expected increased demand in industrial applications. While higher inflation expectations did put a halt to the continued drop in government bond yields, it has yet to stop the almighty Tech sector which continues to post record high performance mostly driven by the same handful of companies.

Chart 1. Asset Class return YTD (USD Base)



Equities

The month of August continued to deliver outsized returns for risk assets with US equities comforting their lead as the best performing market globally. Growth stocks were once more in the driving seat, supported by FAATMAN stocks (Facebook, Alphabet, Amazon, Tesla, Microsoft, Apple, and Netflix) with the equal weight basket up +20.0% last month and up +105% since March low (**Chart 2**). We will also take a minute to highlight that Apple’s market cap (\$2.5Tn) is now greater than the entire Russell 2000’s market cap (\$2.3Tn). Meanwhile, Tesla is the seventh most valuable company in the US market, Zoom’s market cap surpassed that of IBM, and the five largest companies in the S&P 500 account for more than a fourth of the index’s total market cap. Needless to say that complacency and crowding is running high.

Global equities were up +6.0% last month and up +4.1% YTD. The MSCI World Index closed above its all-time-high at \$584 on August 26, 2020. US equities performed slightly better by being up +7.0% this month and positive +9.2% YTD (**Chart 3**). In Europe, equities closed the month up +4.2% but remain anchored around their 62% retracement level relative to their YTD peak-to-trough reference point (**Chart 4**). Equities are still down -10.7% YTD in the region.

From a valuation perspective, the MSCI world is now trading on a 2021e P/E ratio of 20.1x which is nearly 2.5 standard deviations expensive. The S&P 500 Index trades on a 2021e P/E ratio of 22.8x, the highest since 2001. European equities seem to be fairly priced and in-line with historical mean on a price-to-book basis currently.

Chart 2. FAATMAN Index (Daily)



Source. Bloomberg, MAM Research

Chart 3. S&P 500 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Fixed Income

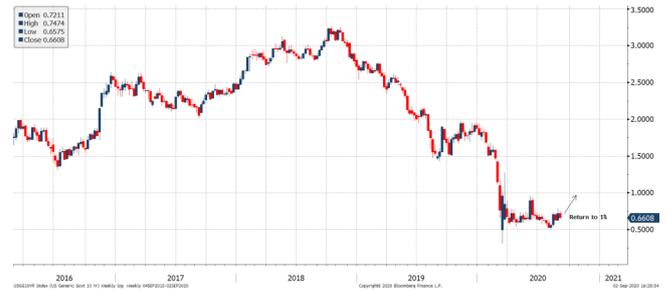
At the annual symposium traditionally held in Jackson Hole, chair Powell delivered a long-awaited policy speech outlining changes to the Fed’s monetary policy framework ahead of the September FOMC meeting. The most notable change, although expected, was the move away from a fixed inflation target of 2% to an average inflation target of 2% with even this slight change in wording having deep macro-economic and financial implications. It allows the central bank to run accommodative monetary policies and let the inflation run higher, albeit moderately, to support economic activity or recovery. The risk for higher inflation as discussed in our last MAM Insights is therefore growing and markets are starting to price it in with the US 5Yr5Yr forward breakeven rates rising to 1.8% in less than 2 months (**Chart 6**). On the news, the US 10-2Yr yield curve steepened from 51 bps to 59bps with the US 10-Yr bond yields rising to 0.762% (**Chart 5**).

We continue to believe yields have seen their lows for this economic cycle and the yield curve is likely to steepen. The liquidity-driven rally seen in credit has lost its momentum. The next move in credit is likely to be more challenging and less rewarding than it has been over the past five months. Investment grade spreads no longer offer compelling value in most developed countries meanwhile high yields spreads are tightening despite rising default rates in the US and Europe.

Currencies

The dollar remains a counter cyclical currency that tends to move in the opposite direction of the global business cycle. After peaking in late March, the greenback posted its fifth consecutive monthly decline and broad losses against its G10 peers. In the meantime, the euro matched a two-year high as energy commodity driven commodities held gains. The dollar is down almost 11% since March (**Chart 7**). However, short-term market indicators show the move is loosing some pace and we could observe a period of consolidation before the trend carries on. The Euro was up +1.3% this month (**Chart 8**). The British pound carried on its momentum gaining as much as 3% before pulling back a little after approaching its highest level since 2019. Then, the Yen (**Chart 9**) remained fairly strong supported by the weaker dollar and investors begun to unwind some of their short positions, anchoring the safe haven currency near the resistance level of its 4-year bullish wedge technical formation. As mentioned above, commodity driven currencies such as the Norwegian Krone and Canadian dollar continued to strengthen and recover most of their year-to-date losses on stronger oil and natural gas prices. Last month, respectively, the currencies were up 4.2% and 2.8%.

Chart 5. US 10-Yr Treasury Bonds (Weekly)



Source. Bloomberg, MAM Research

Chart 6. US 5Yr5Yr Forward Breakeven Rate (Weekly)



Source. Bloomberg, MAM Research

Chart 7. US Dollar Index (Weekly)



Source. Bloomberg, MAM Research

Chart 8. USD/Euro Spot Exchange Rate (Weekly)



Source. Bloomberg, MAM Research

Chart 9. JPY/USD Spot Exchange Rate (Weekly)



Source. Bloomberg, MAM Research

Commodities

The continued strength of precious metals was two toned this last month with gold consolidating within the \$1,900 to \$2,000 range positing only a minor decline (**Chart 10**) and silver building further on its momentum to post a monthly gain of 15.4% after reversing back from its resistance level near \$30 (**Chart 11**). The weakness in the dollar remains one of the most important trends in global markets and key contributor to the healthy returns posted by industrial metals last month, in addition to a slight pick up in global trades and economic activity. Copper prices have been a fairly good indicator of economic recovery in the past and continues to be one to this date. Last month, the commodity confirmed the breakout of a decade long wedge formation signalling either, if not both, that first the global economy is recovering and progressively finding its way back to a new normal and/or two the supply disruption on the commodity is such that prices are naturally driven higher. All in all, copper ended up +6.0% last month (**Chart 12**). Within the energy space we saw the two lagging commodities (performance-wise) this year continue their path to recovery with crude oil being up +5.8% and natural gas finally breaking out of year-long price decline to post an outstanding +46.19% return last month alone.

Emerging Markets

Emerging market equities did not post outstanding returns last month with the MSCI EM Index up +0.8% last month (**Chart 13**) thus despite the weaker dollar and the general robust performance in global equities. The continued increase in new Covid cases in EM countries as well as the lack of traction from EM currencies explains the disappointing returns in EM stocks. We will note that a major portion of the underperformance was coming from the LATAM region which closed the month down -7.6% overall driven by Brazilian equities which pulled back by more than -8.3% last month. The majority of the decline was driven by the local currency after rising political uncertainty and the ongoing economic struggles resulting from the pandemic. The BRL was down -5.0% in August. In contrast, Mexico performed relatively well with the local currency appreciating 1.8% against the dollar despite flat equity performance. For EM equities to attract more bid from global investors, EM currencies will need to start participating in the dollar's weakness.

Within the fixed income spectrum, local currency LATAM sovereign bonds (**Chart 14**) consolidated their strong July performance before starting to continue on their recovery in the early days of September already. The LATAM local sovereign bond index was up +30bps last month.

Chart 10. Gold Spot Prices (Weekly)



Source. Bloomberg, MAM Research

Chart 11. Silver Spot Prices (Weekly)



Source. Bloomberg, MAM Research

Chart 12. Copper (Weekly)



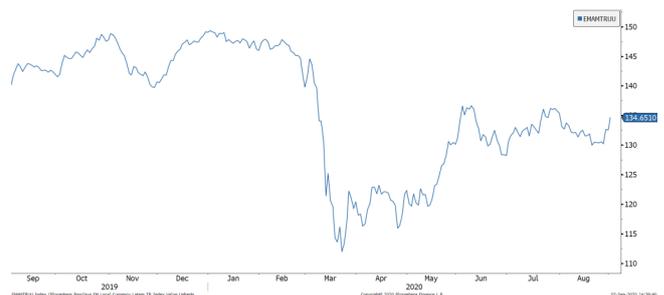
Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)



Source. Bloomberg, MAM Research

Chart 14. LATAM Sovereign Bond Index LCL (Weekly)



Source. Bloomberg, MAM Research