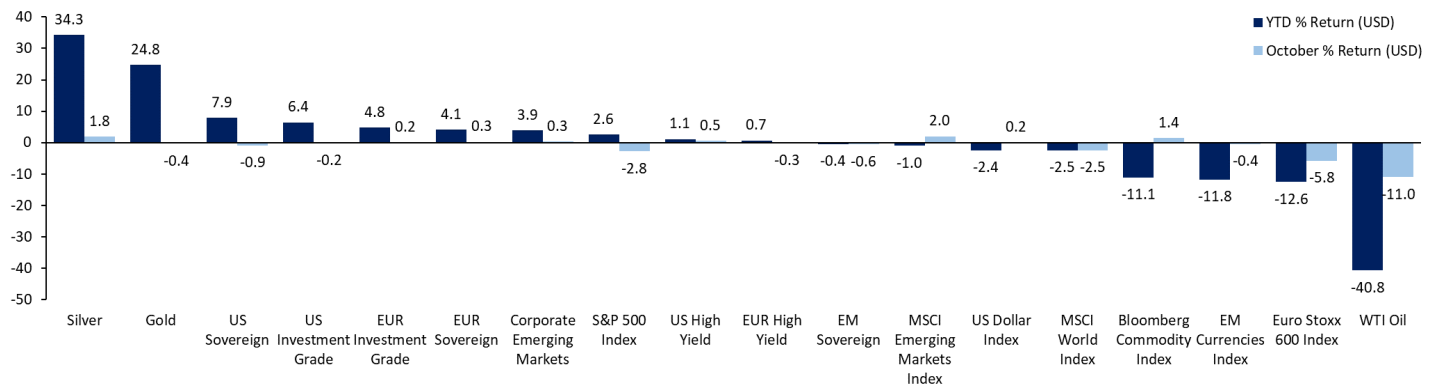


November 3, 2020

Monthly Market Wrap, October 2020

The October news flow was dominated by three topics: US fiscal stimulus, US elections, and the resurgence of Covid-19 in Europe. After a summer spent outside, Europe enters at least another four weeks in lockdown as governments and local health authorities grew concerned with the rapid increase in new cases and aim to keep hospital capacity under control. The number of total cases surpassed 46.8 million meanwhile deaths top 1.2 million, last week was the deadliest for the pandemic since April.

Chart 1. Asset Class Return YTD (USD Base)



Equities

Global markets spent much of the month in wait-and-see mode before European governments announced restrictive measures to curb down the spread of the virus on the continent and large US tech companies published earnings. Equities were in for a rough ride in the last week of October. The MSCI World was down -4.05% in the last week and down -3.07% MoM.

US equities outperformed global equities by +40bps with most of the relative strength coming from small cap companies. The Russell 2000 (c.+2.09%) outperformed the S&P 500 (c.-2.66%) (Chart 2) by +4.75% and the Nasdaq (c.-3.16%) by 5.26%. Sector-wise, in the region, utilities (c.+4.99%) were the top performers as both tech (c.-5.15%) and energy (c.-4.69%) led the declines.

On rapidly rising cases, Europe was the worst performing region with the EuroStoxx 50 posting its worst weekly decline since March (c.-7.52%) (Chart 3) while the EuroStoxx 600 dropped -5.1% (Chart 4). Germany was the worst performer in the union (c.-9.4%). France and Spain were respectively down -4.4% and -3.8%. We observed some interesting sector performance divergence. Banks were up +0.68% and travel was up +2.02%, the best performing sectors last month. Adversely, tech and healthcare were among the worst performers, respectively down -10.9% and -7.4%. Interestingly, the virus trade that prove efficient in March may not be as effective this time around.

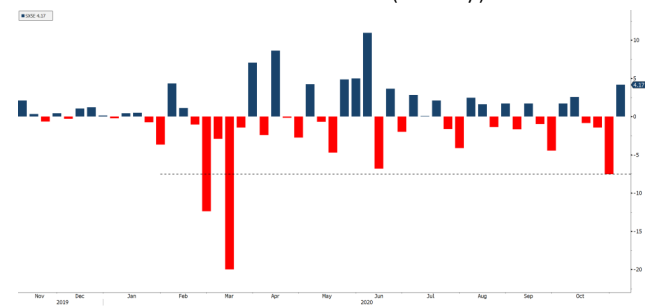
With rising uncertainty ahead of the US elections, US fiscal stimulus, Brexit, and Covid-19 cases surging globally, volatility picked up last month with the VIX Index rising to 35.8%.

Chart 2. S&P 500 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 3. EuroStoxx 50 Index Returns (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Fixed Income

Despite the risk-off move prompted by a resurgence in Covid-19 cases and disappointing earnings from large Tech companies in the last couple weeks of October, US sovereign and corporate credits failed to act as an hedge and compensate for falling prices in risk assets. US treasuries yields rose across the curve. The US 2-Year yields rose +3bps while the US 10-Year yields rose by +19bps (**Chart 5**). The US yield curve steepened with the 2-10-Yr and 5-30-Yr spreads rising by +16.4bps and +9.6bps, respectively. US inflation expectations edged higher by +13bps to 2.19% (**Chart 6**), explaining part of the longer tenors' move.

Inversely, surging cases and newer restrictive measures across Europe prompted investors to bid up bond prices. German bund 10-Yr yields dropped -10bps in October to -0.62%, their lowest level since March 2020. Corporate and high yield credits in the region fared relatively well with their respective indices up +88bps and +79bps, outperforming their US counterparts by +1.1% and +0.3%. Expectedly, long-term inflation expectations in Europe pulled back a bit with markets now pricing a 1.1% inflation rate, down -2.2bps month-over-month.

In the U.K., sovereign yields were relatively unchanged last with the sovereign index up +30bps. With no-deal Brexit uncertainty looming, inflation expectation edged higher to 3.6% (c.+3.8bps).

Currencies

Global currencies were trading waters last month with most G10 currencies trading within a +/- 1.5% range against the dollar, on a month-to-month basis, with investors cautious as uncertainty rises ahead of US elections, Brexit, fiscal stimulus, central bank updates, and rising virus cases prompt countries to reintroduce restrictive measures. The dollar index was up +0.16% last month (**Chart 7**) after its biggest weekly advance since September in the last couple sessions with US stocks extending their slump amid disappointing earnings from the largest tech companies and investors cut down on risk.

The Euro (**Chart 8**), Swedish Krona, and Australian dollar were the biggest laggards among G10 currencies respectively down -0.63%, -0.66%, and -1.87% against the dollar. From a technical perspective, the Japanese Yen continued to test its 4-year wedge resistance level at ¥104.0/\$ (**Chart 9**). The currency gained as much as +0.78% against the greenback last month.

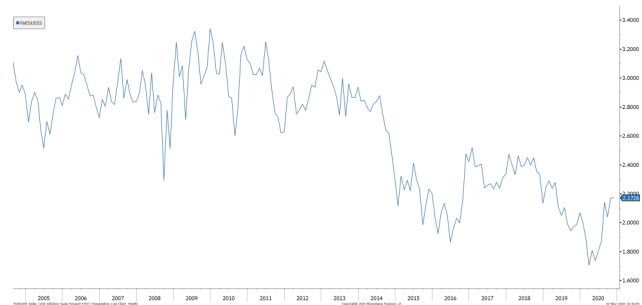
Elsewhere, higher natural gas prices over the month proved supportive to commodity-sensitive currencies with the NOK up +2.18% and the RUB up +2.44% against the dollar. The British Pound continued to trade within a certain range over the period to close up +0.21% vs. the dollar. Intra-month moves were driven by Brexit talks news and should continue to do so.

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



Source. Bloomberg, MAM Research

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



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

Precious metals continue to be the best performing major asset class with the Bloomberg Precious Metals Index up +22.7% YTD. Yet, with markets in wait-and-see mode, gold and silver were both relatively flat last month. Gold was down -0.37% (**Chart 10**) meanwhile silver was up +1.81% (**Chart 11**), recouping some of its September losses. Each precious metal found support near current technical levels. Investors should expect the metals to continue their rally when a stimulus package is confirmed and the uncertainty surrounding the virus and US election dampens.

Among energy commodities, oil (**Chart 12**) traded nervously within a range ahead of winter before dropping lower in the last week as European governments introduced new restrictive measures bound to put a strain on demand. However, supply side production cutbacks should provide short-term support to prices. In the meantime, natural gas prices rose significantly last month to become best performing commodity. Natural Gas futures were up +32.7% in October and +47.8% YTD. Prices were driven by a tightening outlook and elevated chance for inventories to remain below maximum capacity at the end of summer 2021, unless regions experience mild weathers.

Elsewhere, copper was relatively flat on the month (c.+0.49%) meanwhile agricultural commodities were up +3.2%.

Emerging Markets

Throughout the month of October, emerging market equities fared significantly better than their developed market counterpart, outperforming the MSCI World Index by +5.13% with the MSCI Emerging Markets Index up +2.06% (**Chart 13**). The Philippines, Indonesia, and China were the best performing regions at +8.0%, +7.7%, and +5.3% respectively. Nonetheless, China remains the only emerging market country to be positive on a year-to-date basis (c.+22.6%) as it seems to be coping with the crisis better than other region. While they outperformed global equities, Brazilian equities continue to lag their EM counterpart, down -2.5% last month and -42.4% YTD.

With the dollar slightly stronger, emerging markets sovereigns turned negative (c.-0.6%) meanwhile corporate credit stayed relatively flat on the month (c.+0.3%).

Emerging market currencies were also rather flat on the month with the JPM Emerging Markets Currency Index down -0.4% (**Chart 14**). However, we observed some divergence among emerging market currencies. The Brazilian Real was up +2.4%, Mexican Peso down -4.2%, Chinese Renminbi down -1.5%, Russian ruble up +2.4%, and South African Rand down -3.0%. Moves were mostly reflective of each region's respective top commodity export price and outlook changes.

Chart 10. Gold Spot Prices (Monthly)



Source: Bloomberg, MAM Research

Chart 11. Silver Spot Prices (Monthly)



Source: Bloomberg, MAM Research

Chart 12. WTI Crude Oil Front Month Rolling Futures (Weekly)



Source: Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)



Source: Bloomberg, MAM Research

Chart 14. JP Morgan EM FX Index (Weekly)



Source: Bloomberg, MAM Research