

THOUGHTS ON THE MARKET

15th September 2020

Markets rally as investors wait for the Fed to confirm that rates are on hold

SUMMARY

- Global equity markets rallied overnight as tech share prices bounced from their recent correction in what was a very quiet session in terms of newsflow. Despite the overnight price increase in equities, investors remain on edge after the global sharemarket recorded its first set of back-to-back weekly declines since mid-March amid a reassessment of valuations and increased uncertainty about COVID-19 vaccines.

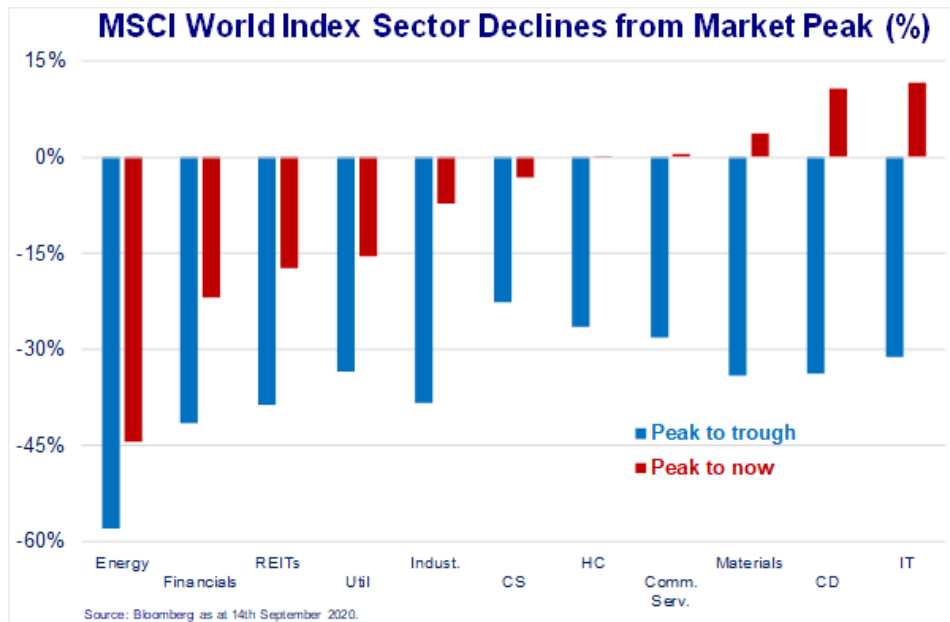
In other markets, 10-year US Treasuries was steady at 0.67% with marginal curve steepening from the short end, commodities were mixed with gold (+0.8% to USD1,957 per troy ounce) outperforming oil (-0.2% to USD37.26 per barrel), and G10 currencies were all higher against a weaker Greenback with advances in Sterling (+0.4%), Yen (+0.4%), the Euro (+0.2%) and AUD (+0.1% to USC72.90).

- Markets continue to look forward to this week's FOMC meeting which will see the institution maintain its dovish stance, but expectations are declining that they will begin their process of providing a specific outcomes-based forward guidance. However, I honestly think this tool serves no real purpose to markets because 5-year US Treasuries at currently trading at 0.25% which means that market has already factored in no rate hike for a very long period. Consequently, the Fed saying until we achieve inflation of this level, and unemployment of that level, we will keep rates on hold is just stating what the market has already factored in.
- The number of global cases of COVID-19 is 29.1 million with another +234.4k cases so far (but Brazil, Mexico, Colombia, South Africa and 4 US states have not reported their numbers) which means that Monday was the 56th consecutive day where daily increases are greater than 200k. At present, 10 countries have more than 500k cases, 22 countries have more than 200k cases (Indonesia joined this group overnight) and 33 countries have more than 100k cases. More importantly, the growth rate of daily confirmed cases (+0.9% since Friday) is steady. Meanwhile, deaths stand at 925.9k and the death rate was steady at 3.18% although the number of daily deaths remains elevated.

FINANCIAL MARKETS

• EQUITIES

- The MSCI World Index closed higher (+1.2%) overnight with advances led by tech (+1.9%) which recouped some of last week's declines, helped by news that Oracle (+4.3%) beat Microsoft (+0.7%) to purchase the US operations of TikTok. REITs also performed strongly although it was hard to pinpoint the catalyst for the rally, and consumer discretionary (+1.3%) beat the market tape despite a decline in Amazon (-0.4%). Meanwhile, traditional cyclical and value sectors mostly rose but trailed the broad index with financials (+0.9%) weighed down by softness in banks after some cautious commentary by Citigroup at the Barclays conference, and energy (-0.2%) continued its recent price decline with the sub-index down for the 19th occasion in the past 23 session (and -14.0% during that time) as oil prices headed slightly lower. By the closing bell, five sectors have now staged a complete recovery from the March quarter decline, with energy (with a peak to now decline of -44%) and financials (-21.9%) still in bear market territory.

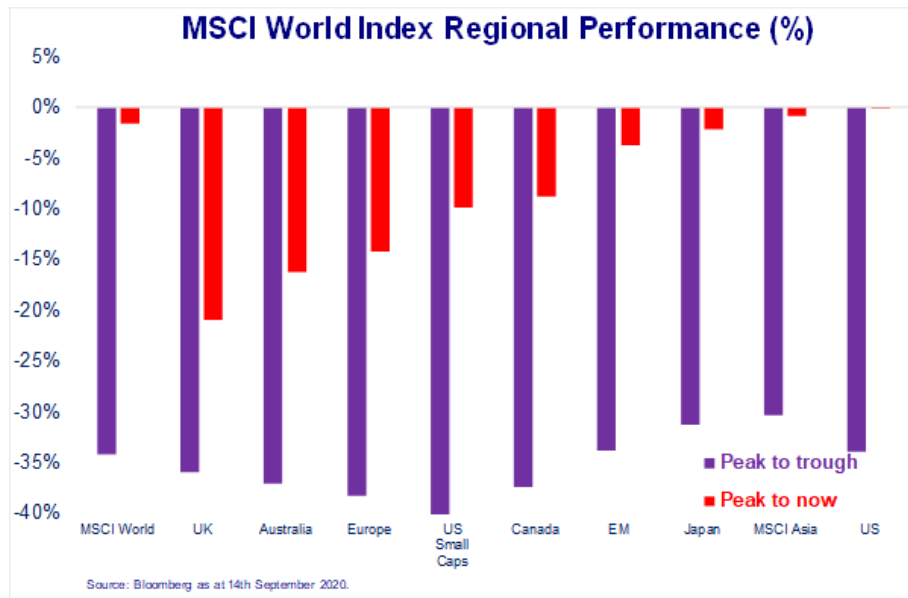


- **Among the regions, the pace of advances was led by the US sharemarket (+1.3% which bounced after the market capped off its first back-to-back weekly declines in four months).** It was a very light day in terms of data and news, which meant vaccine optimism was the go-to-reason for the rally after Pfizer and NioNTech proposed expanding their COVID-19 trial to 44k volunteers which should help determine if this drug works by the end of October. Meanwhile, on the policy front the market is waiting for this week's FOMC meeting, but expectations about clarification around forward guidance are diminishing, similar to anticipation around fiscal support even though Treasury Secretary Mnuchin said this morning he's still open to negotiations with Democrats. By the closing bell at the NYSE all indices closed higher with advances led by the Russell 2000 (+2.7%), NASDAQ Composite Index (+1.9%), the S&P 500 Index (+1.3%) and Dow Jones (+1.2%, +327 points to 27,993).

Asia equities rallied to start the new week with the MSCI Asia Pacific Index up +1.2% in a quiet session which lacked meaningful news. In coronavirus developments, the headlines were supportive for risk-on with Victoria recording its fewest infections in 11 weeks as restrictions in regional areas were lifted, South Korea eased social distancing curbs including on indoor dining and the Tokyo government this week will end its policy of asking bars to close early. Meanwhile, Japan Chief Cabinet Secretary Suga won the LDP leadership vote in a landslide and is set to be appointed prime minister on Wednesday. By the closing bell, regional advances were led by South Korea (+1.3%), Taiwan (+0.9%), Japan (+0.7%), Australia (+0.7%), Hong Kong (+0.6%) and Mainland China (+0.5%), whereas India (-0.3%) and Singapore (-0.3%) were the only regional bourses to close lower.

European markets closed flat despite a strong solid opening in response to an upbeat Asia regional lead. Macroeconomics releases were light with July Eurozone industrial production data coming out in line with the street (+4.1% m/m), which meant investors focused on Brexit developments with some MPs and former prime ministers uniting against PM Johnson's plan to break international law and renege on the Brexit deal signed with the EU at the end of 2019. There was also quite a bit of attention of COVID-19 case numbers which continued to accelerate in France (+22k), Spain (+27k) and the UK (+3k). That was about it and by the closing bell, the regional index was steady with losses in Italy, the UK and Germany (all -0.1%) offset by advances in Sweden and Spain (both +0.1%), Switzerland (+0.2%) and France (+0.4%).

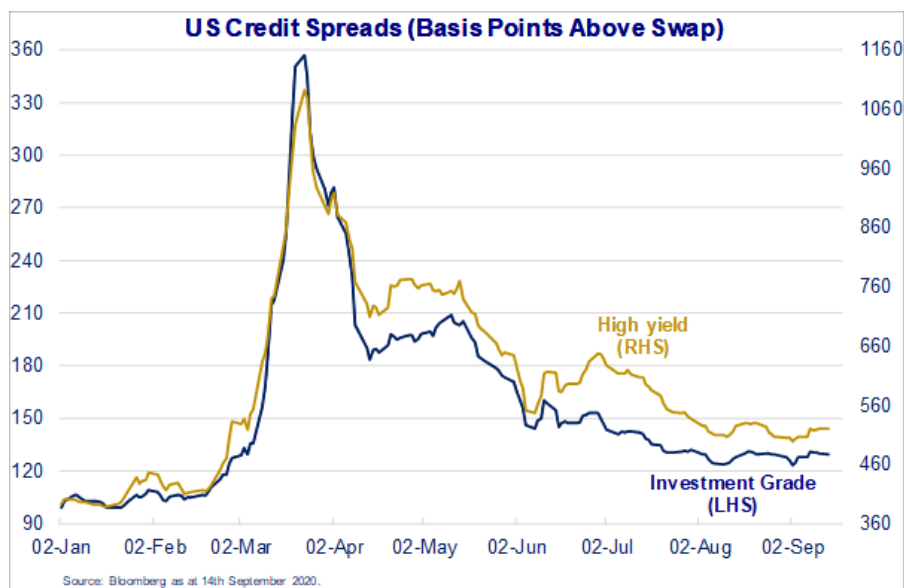
By the closing bell at the NYSE, the UK market (-20.9% since its February peak) is still the only bourse in bear market territory, with Australia (-16.2%) and Europe (-14.2%) in correction territory, whereas the US market (-0.1% - see chart) is nearly back to its February peak although it had already passed this level in August.



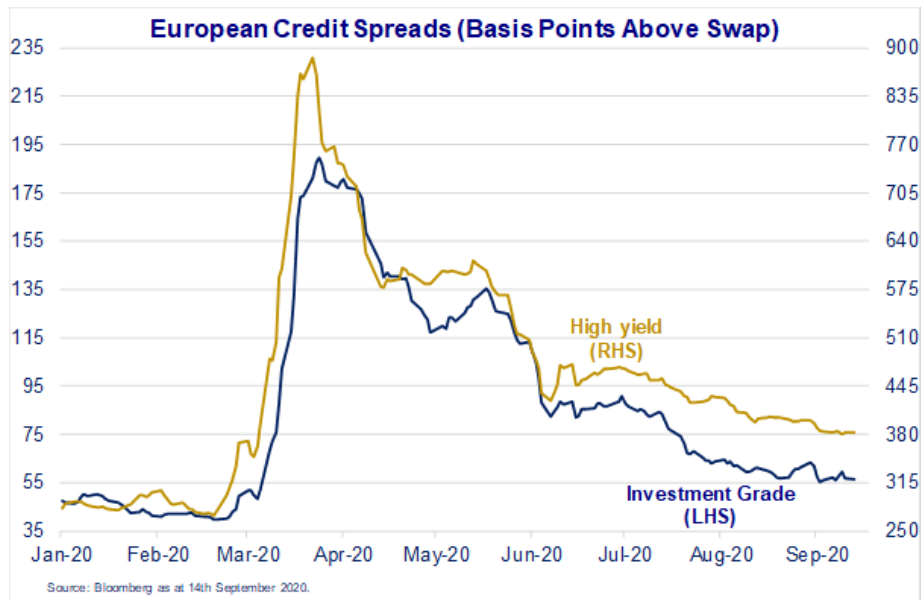
- Futures markets suggest Asian markets will drift at opening with prices suggesting subdued movements at the bell in Hong Kong (-0.1%), Australia (-0.2%) and Japan (-0.5%).

• CREDIT MARKETS

- Regional credit indices were little changed overnight with spreads in the US investment grade space steady at +130 bpts with the recovery rate at 89% as five sub-sectors recorded lower spreads although all of them was by less than one basis point. It was a similar story in the high yield universe where spreads were also unchanged (see chart), and the recovery rate stayed at 84%. Eight of the 11 sub-sectors recorded lower risk premiums although only industrials (-10 points, +634 bpts, 58%) and energy (+12 points, +816 bpts, 97%) were of note.



- European credit markets were equally quiet with investment grade spreads steady at 57 bpts, with the recovery rate also idle at 89% as two sectors recorded lower spreads, but none more than a basis point. Risk premiums in the high yield sector (-1 point to +382 bpts, 82% - see chart) were also tranquilised with six sectors recorded capital gains but movements were overall minor.



THE GLOBAL ECONOMY

- There were no major data releases overnight.

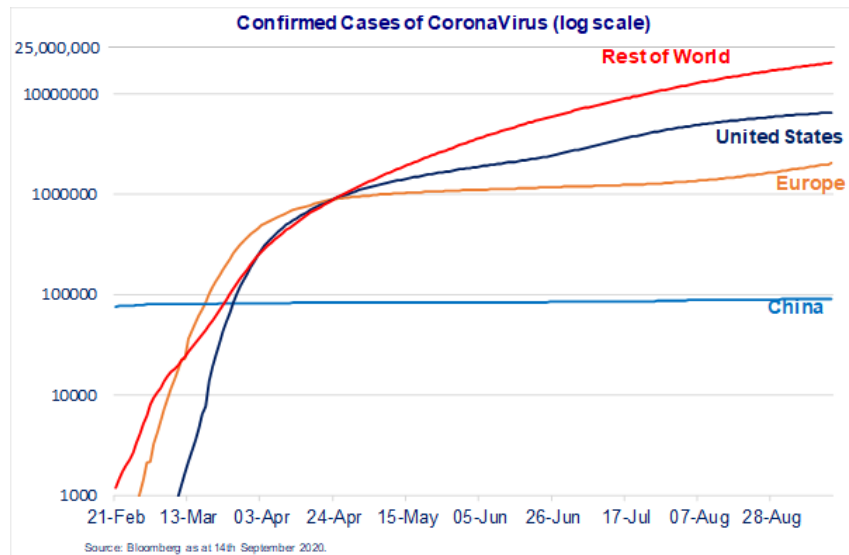
POLICY

- There were no major policy announcements overnight.

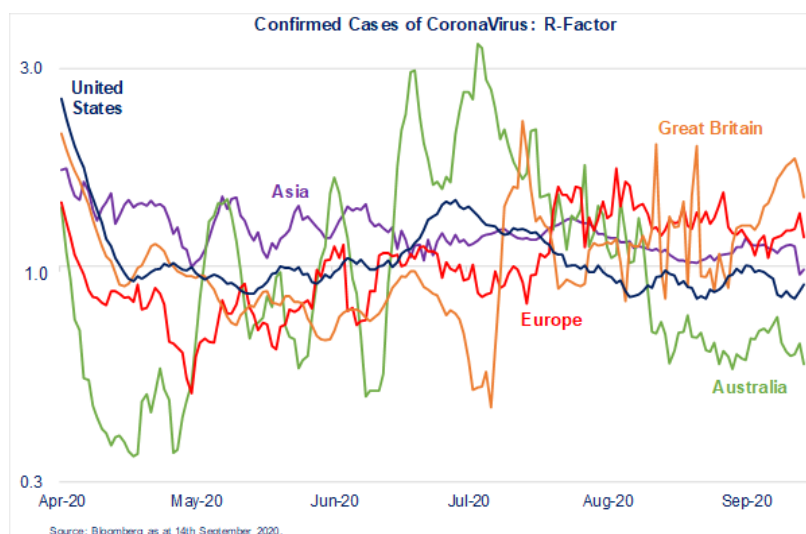
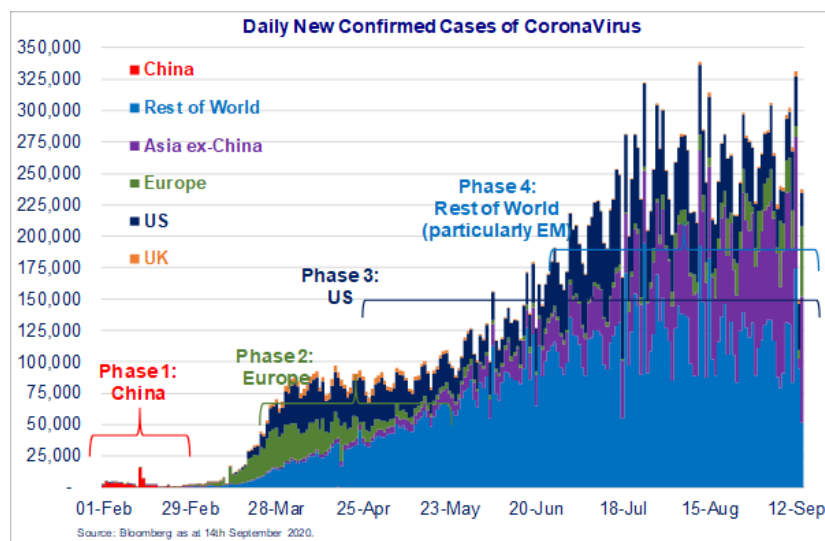
VIRUS UPDATE

- The number of global cases of COVID-19 is 29.1 million with another +234.4k cases so far (but Brazil, Mexico, Colombia, South Africa and 4 US states have not reported their numbers) which means that Monday was the 56th consecutive day where daily increases are greater than 200k. At present, 10 countries have more than 500k cases, 22 countries have more than 200k cases (Indonesia joined this group overnight) and 33 countries have more than 100k cases.

It took 73 days to record 1 million cases, and after this each subsequent million has taken 13 days, 11 days, 12 days, 10 days, 11 days, 8 days, 8 days, 7 days, 6 days, 5 days, 5 days, 5 days, 4 days, 5 days, 3 days, 4 days, 4 days, 4 days, 4 days, 4 days, 4 days, 4 days, 4 days, 4 days and 4 days. More importantly, the growth rate of daily confirmed cases (+0.9% since Friday) is steady. Meanwhile, deaths stand at 925.9k and the death rate was steady at 3.18% although the number of daily deaths remains elevated.

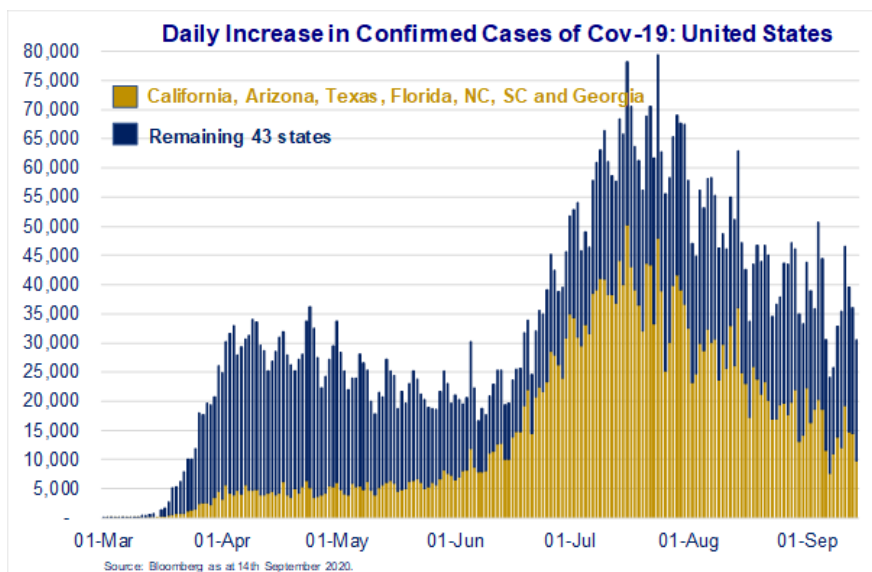
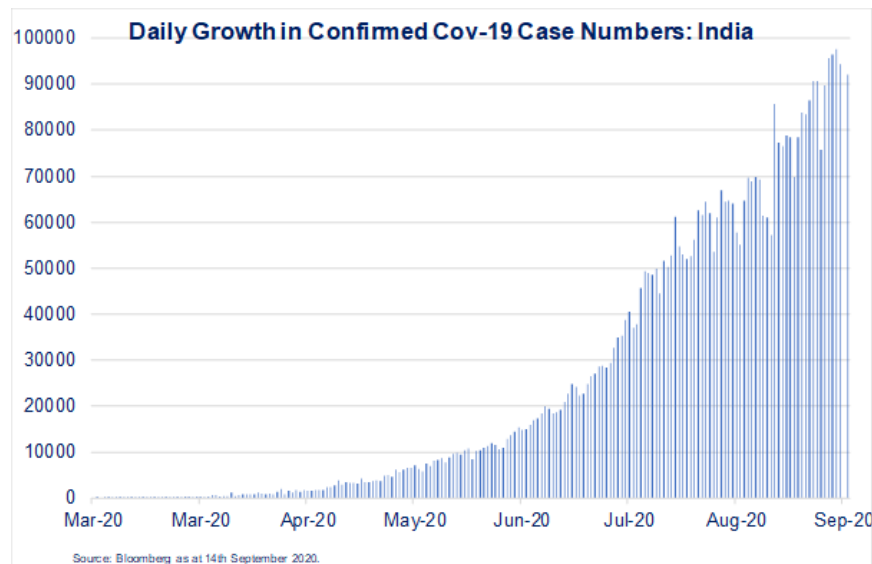


- We break the infections into four groups – the US, Europe, China and ‘others’ and the rest of the world outside the G3 economies now has the most total cases (+152.3k to 26.3 million) and highest daily new cases (and by a considerable margin) followed by the US (+26.4k to 6.55 million, although 4 states are yet to report). The issue for the US is that they never flattened their curve which means economic opening has not been associated with lower case numbers, and rising case numbers are also evident in Europe (+55.7k (record high) to 2.04 million - see chart) which is the only region with an R-factor above 1.0 which indicates that the infection rate (1.17 is too high, especially in Britain (1.47)).

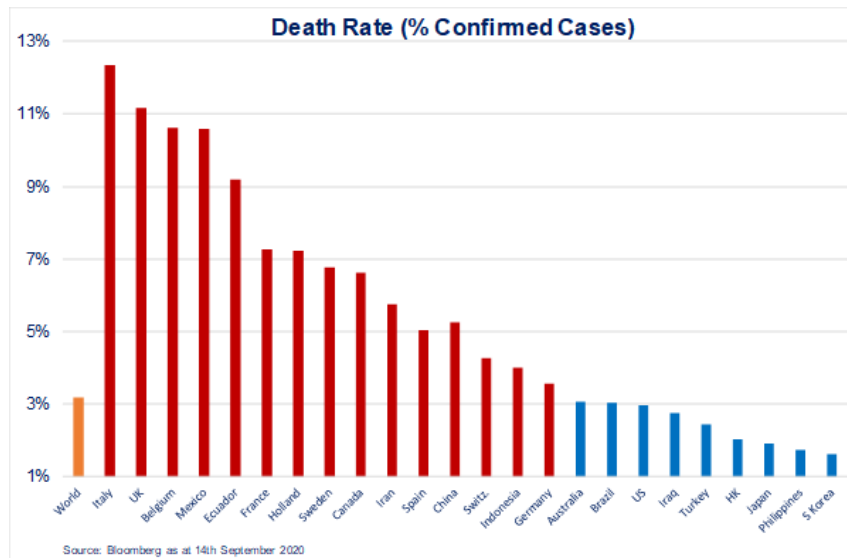
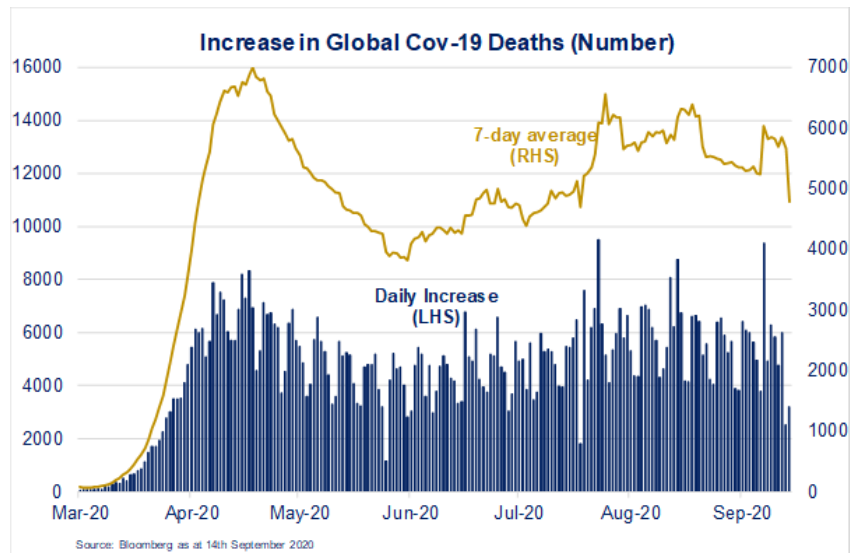


- Among countries, the most cases are in the US (+26.4k (so far) to 6.55 million, with 4 states yet to report), India (+92.1k to 4.85 million), Brazil (not reported, 4.33 million), Russia (+5.4k to 1.06k), Peru (+6.8k to 729.6k), Colombia (not reported, 716.3k), Mexico (not reported, +668.4k), South Africa (not reported, 650.7k), Spain (+27.4k to 593.7k) and Argentina (not reported, 555.5k). Australia confirmed cases rose +41 (6-week low) to 26.7k yesterday which placed us 70th in terms of total infections.

Elsewhere, Singapore recorded +48 new cases to 57.5k most of which are linked to foreign workers who are forced to live in crowded dormitories, but Indonesia (+3.1k to 221.5k) is now on the rise and has the second most cases in the region behind only the Philippines (+4.7k to 265.9k).



- Although final numbers are not in until 1pm AEST, the global death rate was steady at 3.18% with the global total to 925.9k after another +3.2k deaths overnight, so far, which indicates the daily average deaths is stabilising again (see chart). The US (+0.3k so far) has the most deaths at +194.4k, with Brazil (not reported, 131.6k), India (+1.1k to 79.7k), Mexico (not reported, 70.8k), the UK (+9 to 41.7k), Italy (+14 to 35.6k) and France (+55 to 31.0k) all over +30k. The death rate is highest in European countries where the health systems had collapsed led by Italy (-0.1% to 12.3%), the UK (steady at 11.2%), Belgium (-0.1% to 10.6%), France (-0.4% to 7.3%), the Netherlands (-0.1% to 7.2%), Sweden (steady at 6.8%) and Spain (-0.3% to 5.0%). However, several emerging markets are now on the leader board including Mexico (+0.1% to 10.6%), Ecuador (-0.2% to 9.2%), Indonesia (steady at 4.0%) and Brazil (steady at 3.0%).



Yours sincerely,



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