

THOUGHTS ON THE MARKET

25th August 2020 - Markets speculate on COVID-19 treatments

SUMMARY

- Global equity markets rallied overnight, credit markets were idle, and bonds declined, on signs that the Trump administration is willing to fast-track potential vaccines and treatments for COVID-19. Although there was no development on the vaccine itself, the notion of reduced research on side effects and whether the treatment actually works seemed to please speculators who pushed the S&P 500 and NASDAQ 100 up to fresh record highs, with cyclical sectors such as airlines and cruise liners leading the advance. As such, it appears that the market is no longer concerned about 2020 and is looking into 2021 and the delivery of therapeutics, more stimulus and people returning to work. This sentiment sparked gains in all three major regions, but is based purely on speculation, rather than information.

In other markets, US-year US Treasuries declined with yields up +3 basis points to 0.65% which curve steepening, commodities were mixed with gold off -0.6% to USD1,929 per troy ounce and oil rose +0.1% to USD42.39 per barrel, and G10 were lower against a stronger Greenback with declines led by Yen (-0.2%), Sterling (-0.2%), the Euro (-0.1%) and the AUD was steady at USC71.64.

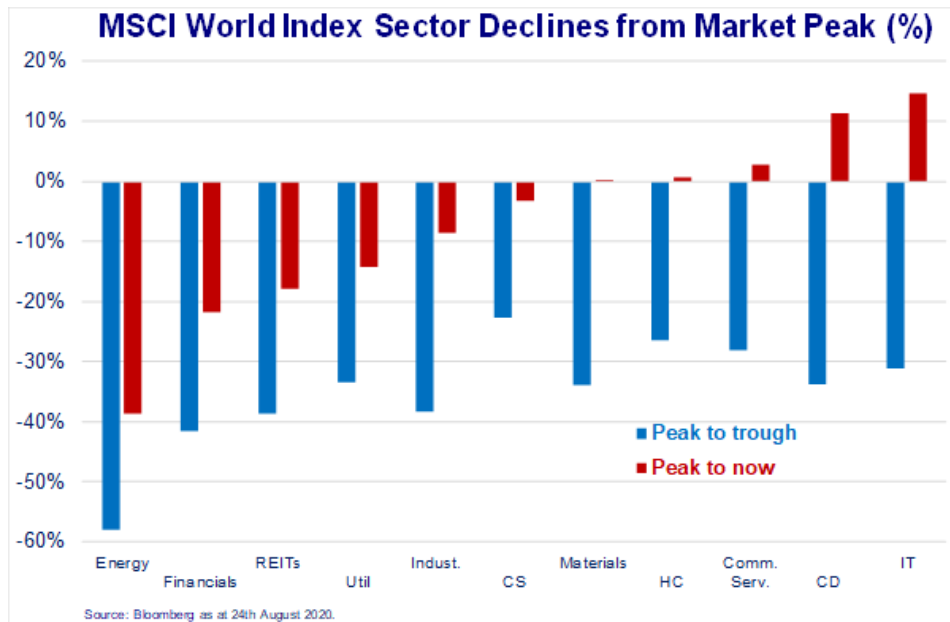
- There was nothing of note on the macro data front, policy announcements or geopolitics news.
- The number of global cases of COVID-19 is 23.5 million with another +108k cases so far (but Brazil, Colombia, India, Mexico and 10 US states have not reported their numbers) which means that Monday is set to be the 37th consecutive day where daily increases are greater than 200k. At present, 8 countries have more than 500k cases, 20 countries have more than 200k cases and 29 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 and 4 days. More importantly, the growth rate of daily confirmed cases (+1.1% since Friday) is once again coming down. Meanwhile, deaths stand at 810.3k and the death rate has declined to 3.44% although the number of daily deaths is on the rise.

FINANCIAL MARKETS

• EQUITIES

- **The MSCI World Index closed +1.0% higher** which was its best result in 8 sessions. Ten of the 11 sub-sectors closed higher with the pace of gains led by traditional cyclical sectors including energy (+2.7%) where a modest rise in the crude price saw the sector snap its seven-day losing streak within which prices had declined -6.9%. It was a similar story in financials (+1.9%) which recorded its largest daily advance in six weeks, and this enabled the sector to recover half of its losses from the past 7 sessions, although one struggled to pinpoint what had truly changed. It was similar stories in industrials (+1.5%), materials (+1.4% despite some declines in base metals prices) and consumer discretionary (+1.0%). Meanwhile, defensive sectors rallied including utilities (+1.2%), communication services (+1.1%) and consumer staples (+1.0%), but healthcare (-0.2%) was the only sector to decline amid losses in biotech names.

Overnight moves did not change the list of sectors in bear market territory (energy and financials) those in correction territory (REITs and utilities), but materials (with a peak-to-now rise of +0.2%) is now the fifth sector to record a complete recovery (see chart).

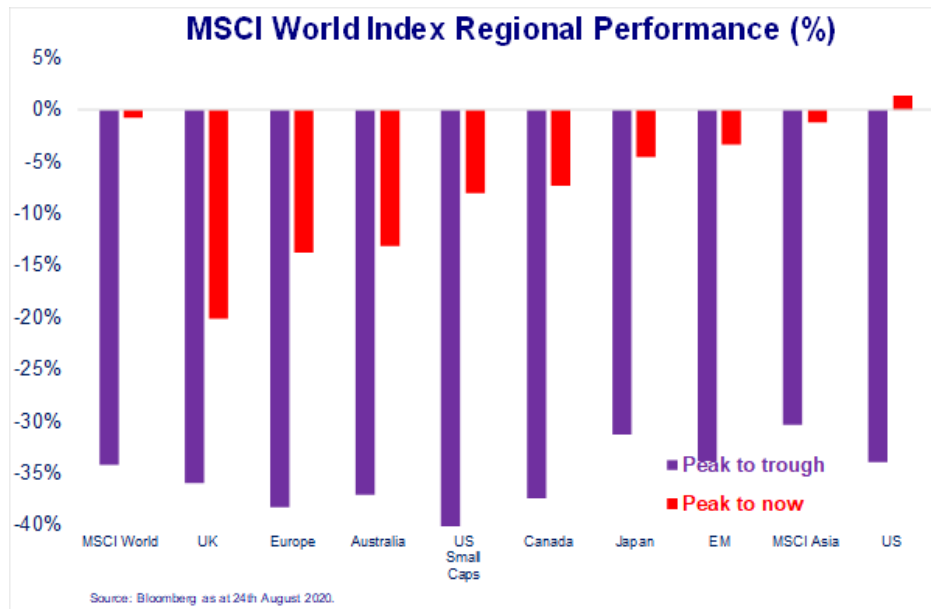


- **Among the regions, the pace of advances was set by Europe (+2.2%)** which had lagged over the past two weeks but recorded its largest rise in 9 sessions and in the process broke a two-day lose streak. The strange this about the session was that sentiment improved, but there was nothing of substance to pin it on – the macro calendar was empty and policy announcements were scant so markets rallied on anything they could find. Newswires pointed to COVID-19 treatments and vaccine headlines in the US as being supportive for sentiment given the FDA’s announcement that it had granted emergency use authorisation of convalescent plasma as a COVID-19 treatment. Meanwhile, reports in the FT cited the Trump administration’s willingness to fast-track the vaccine being developed by Oxford University and AstraZeneca for use in the US. By the closing bell, there were large advances all around the region led by Germany (+2.4%), France (+2.3%), Italy (+2.1%), Sweden (+2.0%), Spain (+1.8%), the UK (+1.7%) and Switzerland (+0.9%).

US equities followed the positive lead from Europe and recorded their largest daily rise (+1.0%) in eight sessions with most indices closing at their best levels for the day in somewhat quiet trading. The S&P 500 and NASDAQ 100 close at record highs in a session which lacked directional drivers with no movement on Congress’s latest stimulus bill, but considerable anticipation of Fed Chair Powell’s Jackson Hole speech which will be delivered on Thursday and is expected to lay further groundwork for the Fed’s shift to an average inflation target and outcome-based forward guidance. By the closing bell, all indices recorded strong gains led by the Dow Jones (+1.4%, +378 points to 28,308), Russell 2000 (+1.0%), S&P 500 (+1.0%) and NASDAQ 100 (+0.6%).

Asian stocks (+1.0%) began the week on a positive note in a generally quiet session with no clear market drivers. The economic calendar was light but Friday’s US PMI reading boosted sentiment that the global economic impulse remains positive and Bloomberg reports that the Trump administration has privately reassured US companies they can still do business with WeChat in China, helping allay US-China risk at least in the near term. Elsewhere, there were some worrying trends in COVID-19 in several countries, but the market decided to ignore this for the time being and by the closing bell, all major regional markets closed higher led by Hong Kong (+1.7%), South Korea (+1.1%), India (+1.0%), Mainland China (+0.8%), Australia (+0.3%), Taiwan (+0.3%) and Japan (+0.3%).

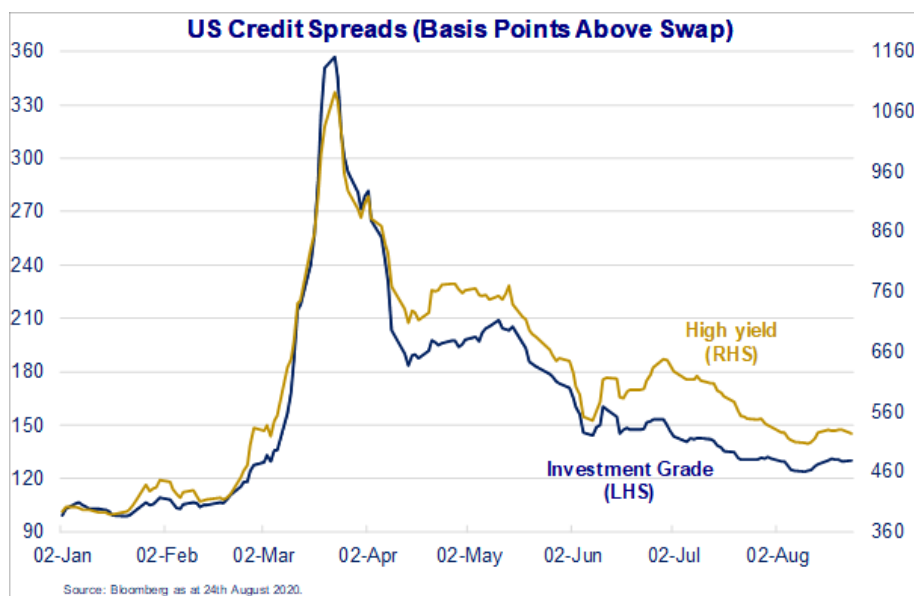
The overnight moves kept the UK (-20.1% on a peak-to-now basis) in bear market territory, and Europe (-13.8%) and Australia (-13.2%) in correction territory, with only the US (+1.3%) having recorded a complete recovery (see chart).



- Futures markets suggest a mixed opening in Asia with Australia (+0.7%) and Japan (+0.6%) slated for advances, whereas Hong Kong (-0.4%) is pointing to opening bell losses.

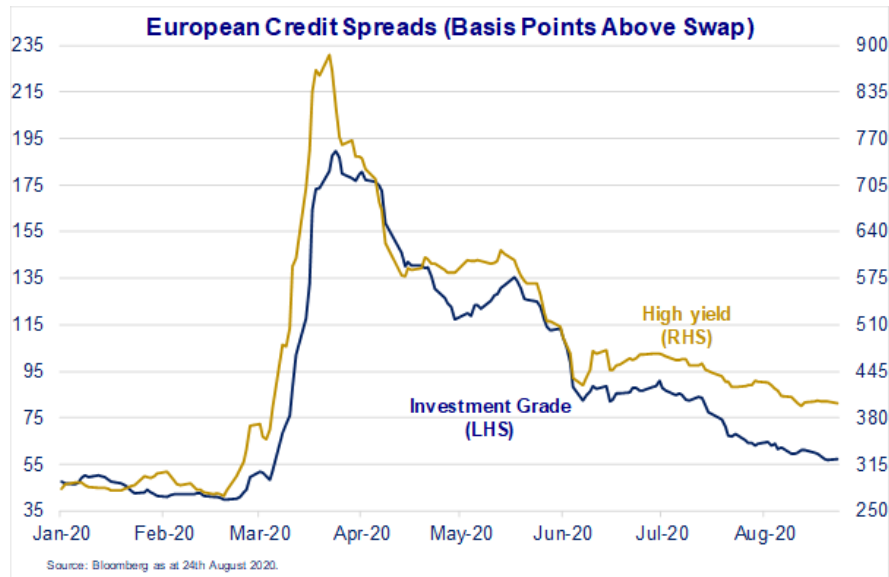
• CREDIT MARKETS

- **Regional credit indices were mixed but quiet with spreads in the US investment grade space unchanged for the third time in the past four sessions.** The yield premium and recovery rate were steady at +130 bpts and 89%, respectively with eight of the 11 sub-sectors recording higher risk premia but all were less than one basis point confirming that the market is waiting for corporate and stimulus action before it moves prices higher. In the high yield sector, spreads decreased -7 points, which is the largest move in over a week (see chart) with all 11 sub-sectors recording capital gains and lower spreads. Tech (-10 points, +431 bps, 79%) led the pace of prices advances, ably supported by consumer discretionary (-8 points, +518 bps, 72%) and energy (-7 points, +776 bps, 100%) which was supported by a higher modestly crude price.



- **European credit markets** were more quiet than their US peers, with investment grade spreads also unchanged at +57 bpts, which kept the recovery rate at 89%, with increases in ten of the 11 sub-sectors with only the decline in subordinated financials (-2 points, +137 bps, 86%) of note. Spreads in the high yield universe declined -2 points, to +401 bpts but the recovery rate was unchanged at 79% with all 11 sub-sectors recording capital gains. However, for the fourth consecutive session risk premia in every sector

moved less than +3 points which suggests that the market has reached an equilibrium with investors happy to leave returns on the table until the macro environment improves from both a growth, balance sheet and default point of view.



THE GLOBAL ECONOMY

- There were no major economic releases overnight.

POLICY

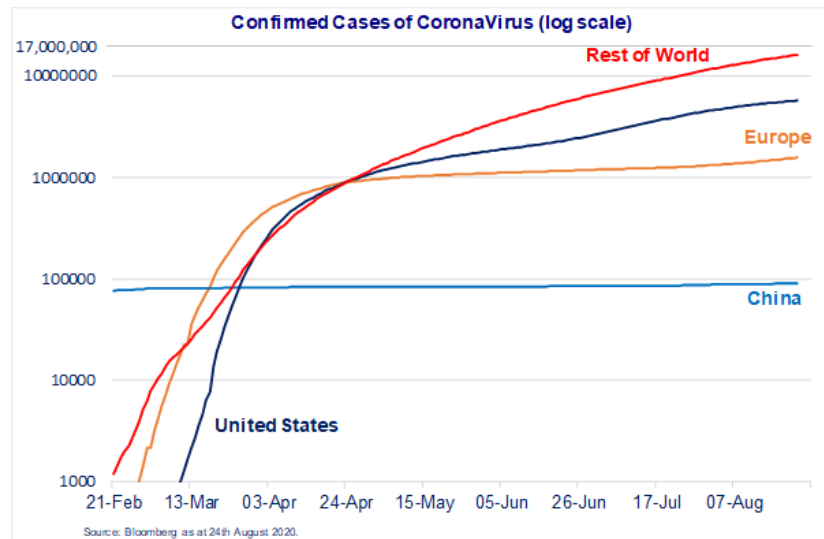
- There were no major policy announcements overnight. However, the Financial Times cited three people briefed on a plan that the Trump administration is weighing up fast tracking the COVID-19 vaccine being developed by Oxford University and AstraZeneca for use in the US ahead of the November election. The article noted that the Food and Drug Administration could provide an emergency use authorisation based on the results from a reasonably small sample size. This could be a good politics move as it could shift the narrative from the President's handling of COVID-19.

However, we would personally argue that this move could dampen already shaky public confidence in vaccine safety as the reason that people are willing to take vaccines is that they have been widely tested prior to extensive use and a rushed procedure can have two unintended consequences in that people can be seriously affected by therapeutics which have unknown side effects (as occurred in thalidomide, albeit a long time ago) and also provide anti-vaxxers with ammunition to continue their campaign against the use of vaccines.

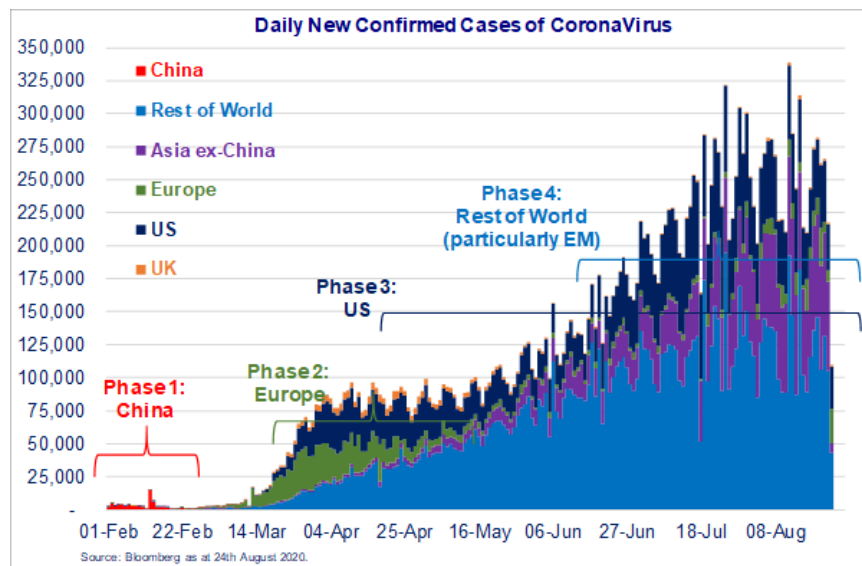
VIRUS UPDATE

- The number of global cases of COVID-19 is 23.5 million with another +108k cases so far (but Brazil, Colombia, India, Mexico and 10 US states have not reported their numbers) which means that Monday is set to be the 37th consecutive day where daily increases are greater than 200k. At present, 8 countries have more than 500k cases, 20 countries have more than 200k cases and 29 countries have more than 100k cases.

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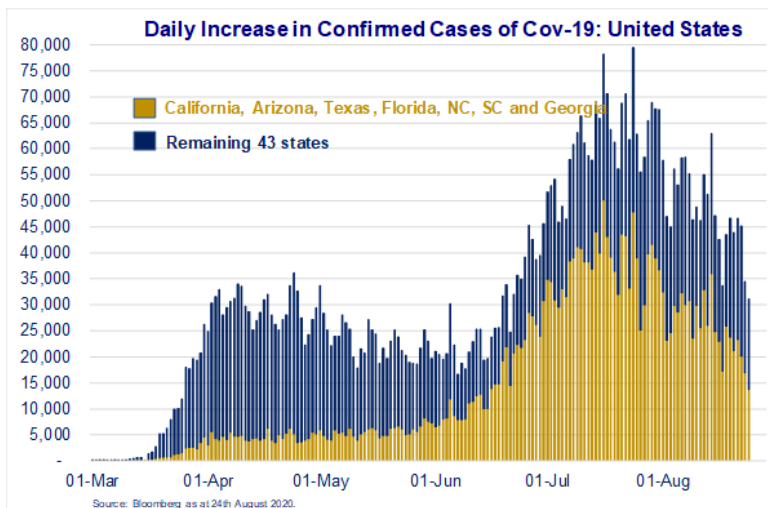
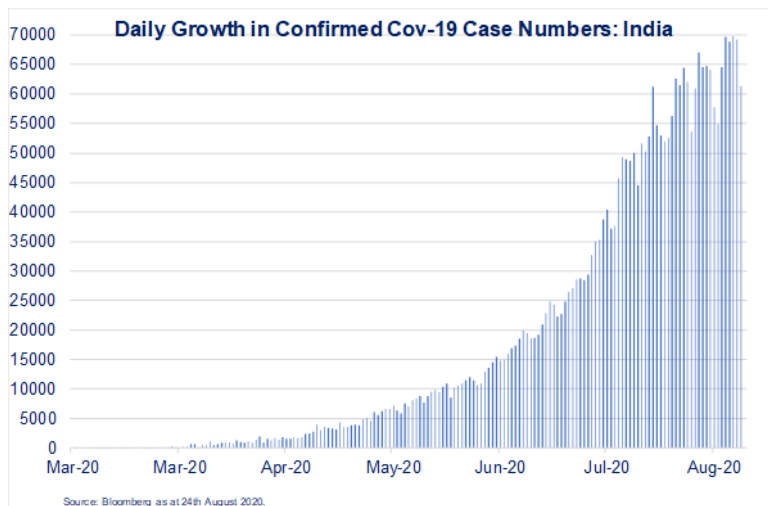
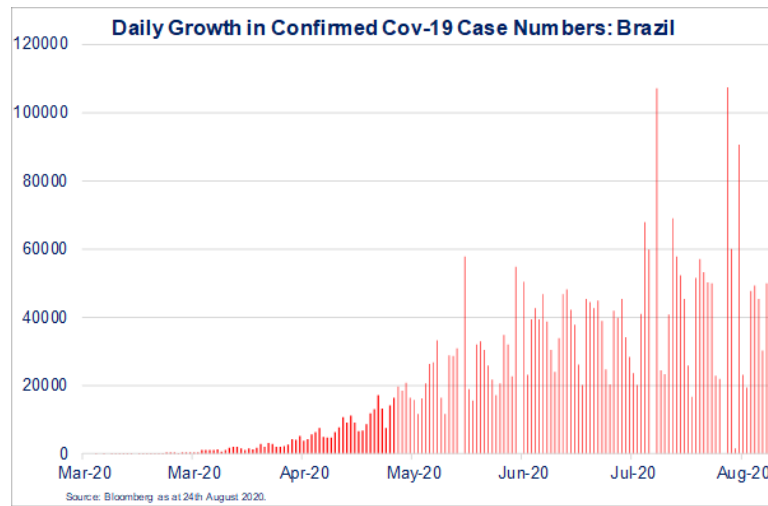


- We break the infections into four groups – the US, Europe, China and ‘others’ and the rest of the world outside the G3 economies now has the most total cases (+58k to 20.03 million) and highest daily new cases (and by a considerable margin) followed by the US (+32.1k (12 week low) to 5.74 million, although 10 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 (+26.0k to 1.59 million - see chart).

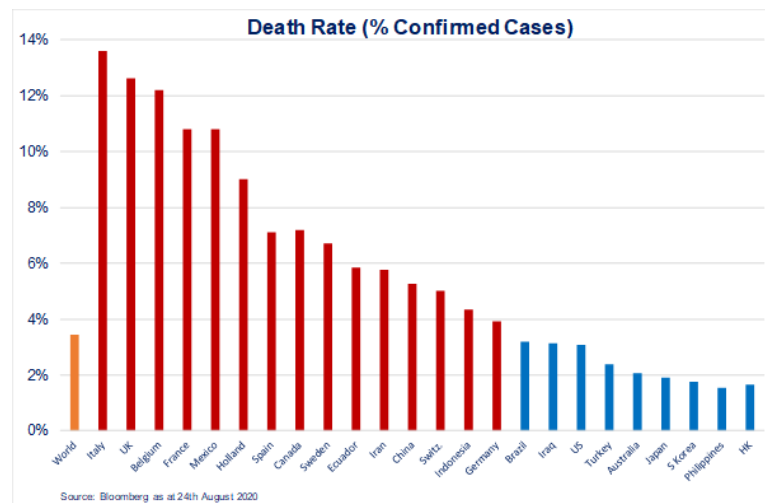
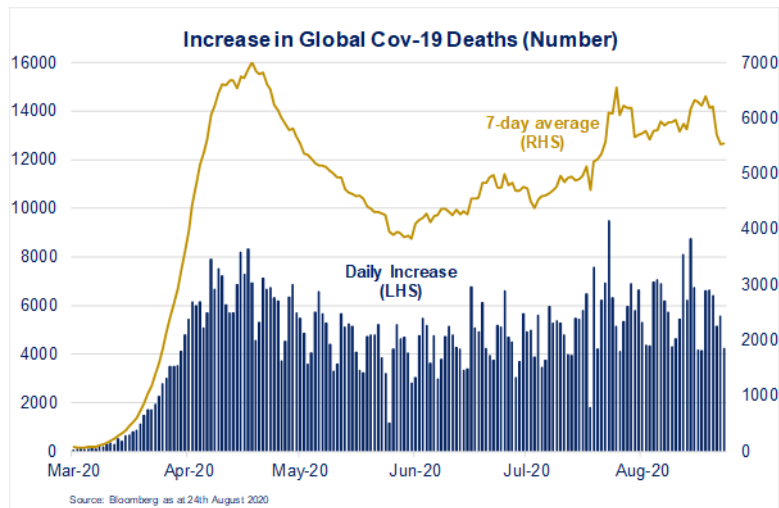


- Among countries, the most cases are in the US (+32.1k (so far) to 5.74 million, with 10 states yet to report), Brazil (not reported, 3.61 million), India (not reported, 3.11 million), Russia (+4.7k to 959.0k), South Africa (+1.7k to 611.5k), Peru (+9.1k to 594.3k), Mexico (not reported, +560.2k), Colombia (not reported, 541.1k), Spain (+19.3k (record high) to 405.4k), Chile (+1.9k, 399.6k), Iran (+2.2k to 361.2k), United Kingdom (+1.0k to 328.6k), Saudi Arabia (+1.2k to 307.5k), Pakistan (+0.5k to +293.3k), Bangladesh (+3.5k to 297.1k) and Italy (+1.0k to 260.3k). Australia confirmed cases rose +104 (3-week low) to 25.0k yesterday which placed us 65th in terms of total infections.

Elsewhere, Singapore recorded +51 new cases to 56.4k most of which are linked to foreign workers who are forced to live in crowded dormitories, but Indonesia (+1.9k to 155.4k) is now on the rise and has the second most cases in the region behind only the Philippines (+4.7k to 194.3k).



- Although final numbers are not in until 1pm AEST, the global death rate declined to 3.44% with the global total to 810.3k after another +1.6k 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 +177.2k, with Brazil (not reported, 114.7k), Mexico (not reported, +60.5k), India (not reported, 57.5k), the UK (+4 to 41.5k), Italy (+4 to 35.4k) and France (+15 to 30.5k) all over +30k. The death rate is highest in European countries where the health systems had collapsed led by Italy (-0.1% to 13.6%), the UK (steady at 12.6%), Belgium (-0.1% to 12.2%), France (steady at 10.8%), the Netherlands (-0.1% to 9.0%), Spain (-0.4% to 7.1%) and Sweden (steady at 6.7%). However, several emerging markets are now on the leader board including Mexico (-0.1% to 10.8%), Ecuador (-0.1% to 5.8%), Indonesia (steady at 4.4%) and Brazil (steady at 3.2%).



Yours sincerely,



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