Newsletter, November 2020

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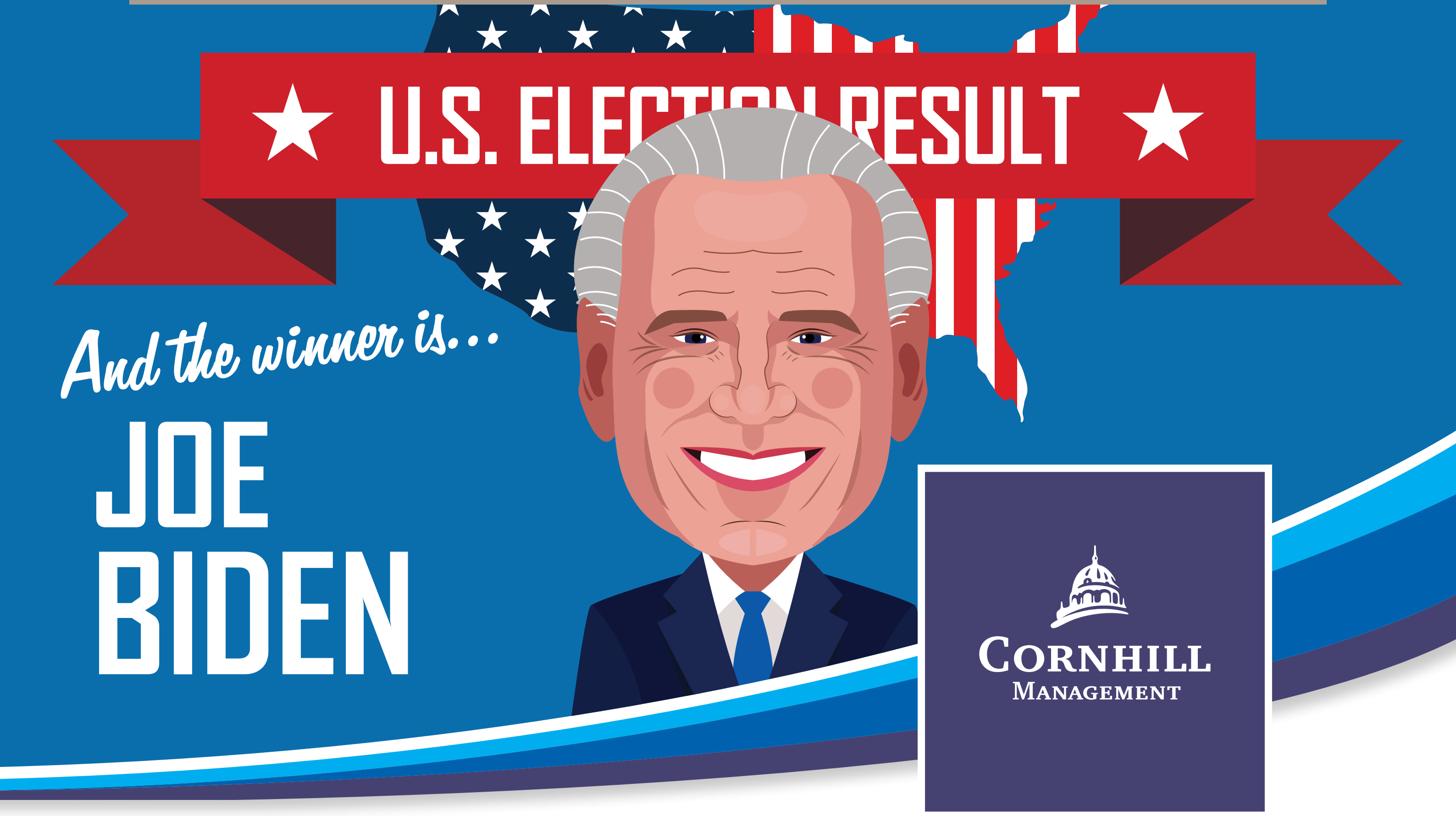

2020 US election

Biden declared president-elect even as the counting and lawsuits continue

With a historic US presidential election now (almost) over and Democratic party candidate Joe Biden set to become – court cases notwithstanding – the 46th president of the United States in January, we look at what the result means for stock markets and whether pundits' predictions for market reaction were spot on or way off the mark.

This presidential election has been unlike any other in living memory, with campaigning taking place against a backdrop of arguably the worst global health crisis since the Spanish flu pandemic a century ago.

The rallies, candidate debates and party conventions without – or in one candidate's prominent case with – audiences, and the mask-mocking President getting infected with coronavirus days before the election made the campaign trail unusual enough.

But election night – or week, as it almost became – trumped even that, stretching over almost five days before Pennsylvania's 20 electoral votes pushed native son Joe Biden past the magical 270 mark making him the winner.

The scenario that the result may not be declared on election night had been one that markets realised was a distinct possibility.

As we reported in our previous edition of View from the Dome, many experts had suggested a long, drawn out result would be the worst possible outcome for equities and that indexes around the world could come under heavy selling pressure.

The reality was somewhat different. US markets posted their best week since April and European stocks their best week since June.

One senior executive at a major investment firm had told the Vox.com news portal that they had been preparing for “armageddon” if there was no winner on election night. Instead, two days after the elections the exact same source said markets had decided it was “back to business as usual”.

But now that the long wait for the final result is over, what does Biden’s win mean in the medium and long-term for investors and their portfolios?

For many experts, it could well be the best outcome equity markets could have hoped for, not because Biden won, but because of the state of play in the Senate, where Republicans appear likely to remain in control – although two run-off elections are to be fought in January – and the House of Representatives where the Democrats are in the majority.

This means Biden will take office as only the second incoming president not to control government – with Republicans holding the Senate his power to push through major policy change will be markedly contained.

As Josh Barro, a business columnist at New York magazine, wrote: “Investors who wanted Trump to go but wanted some of his policies to stay will have their cake and eat it, too.”

In the run up to the elections, Biden identified some key economic policy areas he wanted to address during his presidency. He wanted to roll back the tax cuts his predecessor had implemented and push through further massive stimulus for the economy to help it deal with the effects of the pandemic.

He was also expected to push for stricter regulation on the financial sector, and tech companies.

“Investors who wanted Trump to go but wanted some of his policies to stay will have their cake and eat it, too.”

Josh Barro
business columnist at New York magazine

On the other hand, green energy stocks would be set to benefit as the new President pursued a more climate-friendly policy agenda than his predecessor. He also wanted to push for expanded healthcare coverage – something which would obviously benefit some healthcare shares.

But with control of only one house of Congress, Biden is expected to find it much more difficult to push through an extensive fiscal package, meaning the economy, particularly the labour market, will improve more slowly.

However, stock markets would probably remain in decent health as the limited fiscal support would mean the Federal Reserve will need to keep its monetary stimulus going full steam ahead and interest rates would stay low.

"While lots of attention was given to Trump vs Biden, markets have reacted strongly to the (likely) split congress, which means more confidence that interest rates will be lower for longer," said Dave Wang, portfolio manager at Nuveen Capital in Singapore.

And Trump's corporate tax policy and deregulation measures will probably stay in place, at least for some time.

"There's definitely some relief that things like tougher tax policy, tougher corporate reforms look to be off the table without Democrats having more control over Congress."

Oliver Jones
senior markets economist at Capital Economics

Oliver Jones, senior markets economist at Capital Economics, told The Guardian newspaper: "There's definitely some relief that things like tougher tax policy, tougher corporate reforms look to be off the table without Democrats having more control over Congress.

"Essentially, it's going to look more like a continuation of the status quo, which is the outcome favoured by most firms."

Firms in the tech sector, which have driven the rise in global stocks since the lockdown-induced crashes in March, are also likely to be breathing a qualified sigh of relief.

During campaigning, Biden did not lay out any detailed policy on the tech sector, but he has attacked the role of some companies in failing to stop the proliferation of fake news on the internet. He has argued Section 230 of the Communications Decency Act, which gives protection to social media companies, should be revoked and the Democratic party is known to be keen to curb the power of Big Tech.

But Biden is expected to take a less aggressive approach to the sector than Trump, who despite his prominent use of social media during his presidency, also wanted to revoke Section 230 and has overseen various tech antitrust investigations.

Vice-president elect Kamala Harris is generally seen as tech-friendly and while she has advocated for better protection of consumer's data, she is not pushing for the break-up of Big Tech firms. The general sense is that Biden's team is unlikely to start going after Big Tech.

Senator Jackie Speier congratulates Joe Biden on winning the 2020 presidential election

"The Street appears to have gotten the 'Goldilocks election outcome' for tech stocks with no 'blue wave' expected (Senate staying red) and a likely Biden White House now on the horizon," Dan Ives of Wedbush Securities wrote in a note to investors.

"With the Republicans likely to control the Senate, the chances of major legislative changes to antitrust law, which posed the biggest risks to tech stalwarts with a ripple impact across the sector, is now off the table in the eyes of investors," Ives added.

The 2020 elections saw record voter turnout along with spontaneous celebrations at the declaration of a Biden-Harris win. (Geoff Livingston/Flicker)

Beyond specific policy, markets are also widely expecting Biden's presidency to deliver something they generally crave – consistency. Donald Trump's presidency was marked by many things, but its unpredictability stood out.

Investors are not entirely averse to some volatility as it can offer the opportunity for profit. But the extreme unpredictability of the White House weighed on markets more than once during Trump's time in office. Many investors will be hoping a Biden presidency, even one with a split Congress, will be characterised by more consistency.

DeVere Group chief executive Nigel Green said: "Although a Biden win was pretty much priced-in by the markets, his victory will eliminate uncertainty – which they loathe – and they will rally further as a result.

"Even possible legal challenges from Trump will be dismissed by investors who will instead be focusing on the renewed certainty and stability that a Biden White House will bring, including in key areas such as trade tensions with China, keeping the US in the World Health Organization, resigning the Paris climate agreement, and abiding by other international agreements and long-standing international allies."

However, experts suggest that investors may be disappointed if they expect the new President to break entirely from all his predecessor's policies. In at least one area – trade – there is likely to be only a small change, if any.

While Trump's aggressive trade policies towards many countries, most notably China, sometimes fuelled massive volatility on world markets, Biden is likely to take a more consistent, but not necessarily more conciliatory approach to America's trading relationships.

Biden has been vocal about the need to protect US jobs and motivate firms to keep work and production on US soil. His campaign included a 'Buy American' slogan, and he has pledged to penalise US firms that move jobs abroad. Like the man he has just defeated in the race to the presidency, he also harbours deep concerns over Chinese trade ambitions.

"Although a Biden win was pretty much priced-in by the markets, his victory will eliminate uncertainty – which they loathe – and they will rally further as a result."

Nigel Green
DeVere Group chief executive

In an article on US foreign policy written earlier this year, Biden argued that the US, "does need to get tough with China," and said:

"If China has its way, it will keep robbing the United States and American companies of their technology and intellectual property. It will also keep using subsidies to give its state-owned enterprises an unfair advantage — and a leg up on dominating the technologies and industries of the future."

Experts believe he is likely to follow this thinking while in office, albeit perhaps not as inconsistently as Trump and taking the approach of bringing traditional allies on board to put pressure on China, rather than simply using massive tariffs and sanctions seemingly on a whim, as critics say Trump did.

"The good news for trading partners is they would no longer need to genuflect to Trump's odd obsessions – from the dangers of bilateral trade deficits to his bizarre belief that China was enriching the United States by paying the tariffs charged to U.S. importers."

Edward Alden
Professor of Business and Economics at Western Washington University

Greg Gilligan, chairman of the Beijing-based American Chamber of Commerce in China, told cnbc.com: "The issues that remain between the U.S. and China over their commercial relationship don't change with (the) change of administration.

"There's pressure on both sides to remain fairly hawkish simply because domestic politics don't allow for yielding the hawkish ground to someone else."

But it is not just China he is likely to take a hard line with. Biden has already shown one of the US's oldest allies he will not bend on certain principles to accommodate other countries' trade ambitions.

The UK is desperate to strike a post-Brexit US trade deal. But Biden has made it very clear there will be no deal if the Good Friday agreement, which has helped maintain peace in Northern Ireland, is undermined in anyway. The UK government is planning to push ahead with its Internal Market Bill which risks the imposition of a physical customs border between the Republic of Ireland and Northern Ireland.

Edward Alden, Professor of Business and Economics at Western Washington University, writing in foreignpolicy.com, summed up the approach Biden is likely to take, or be forced to take with a split congress.

He said: "Any moves to ease U.S. tariffs would face significant congressional opposition. A hard line on Beijing is one of the few places where the two parties now agree. Europe would be almost as challenging: Biden is predisposed toward closer trans-Atlantic cooperation, but Republicans are likely to criticize any efforts to remove Trump's tariffs on the European Union's exports or revive the World Trade Organization. The lone Republican trade negotiating priority – a deal with a post-Brexit United Kingdom – would find little love on the Democratic side."

Alden added though: "The good news for trading partners is they would no longer need to genuflect to Trump's odd obsessions – from the dangers of bilateral trade deficits to his bizarre belief that China was enriching the United States by paying the tariffs charged to U.S. importers. Under Biden, Washington would not return as the champion of the rules-based trading system. But at least it might cease to be its biggest adversary."

Overall, however, markets seem more than happy with the outcome of the election.

They also seem to be dismissing the only potential cloud left on the horizon after the election. This, paradoxically, is the current President.

Donald Trump has so far refused to concede defeat, continues to press claims of electoral fraud being behind his opponent's win and has said he is planning legal challenges to results in key states.

Although legal experts say his chances in court of proving electoral fraud are slim, and polling analysts say any recounts in states that were closely-run between the two candidates would not change the overall election result anyway, he could still try to cause problems for the incoming president.

In a Reuters opinion piece from November 7, the news agency warns that Trump remains President until January 20 and "is not without power".

The agency wrote: "Presidents typically spend this period issuing pardons. Jimmy Carter worked until the eleventh hour trying to free hostages in Iran. Trump could use his time more fiendishly.

"A risk is that he pushes Republican legislators to do nothing – or precious little – to help businesses and families impoverished by Covid-19. Biden could then inherit an economy on its knees. The International Monetary Fund has warned that the pandemic is likely to increase social unrest 'for years to come'. Months without relief, and an incoming government unable to pass redistributive economic policies, would only increase the despair."

It adds: "Trump would also have ample time to undermine his successor. Biden has pledged to be a president for all Americans. But Trump can further drive a wedge between Republicans and Democrats using his 88 million Twitter followers and red carpet at Fox News, and his false claims of electoral victory and widespread voter fraud set the tone. Biden stands for calm, but first comes the storm." ■

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The great stock market-economy disconnect

Despite a shrinking economy and rising unemployment, and companies cutting back services and staff as the effects of the coronavirus crisis continue to be felt, US stock markets are soaring. Major indices like the S&P 500 and Nasdaq have regularly hit record highs in recent months and are now in positive territory for the year having regained the ground they lost in March as lockdowns kicked in across the world.

We take a look at why this has been happening, whether experts think this is going to continue, and the historical, and present, disconnect between stock markets and economies.

In February this year, major markets were rising, some were at record highs, and, despite the shuttering of much of the Chinese economy because of the coronavirus outbreak, investor sentiment was generally buoyant.

The economies behind many of these well-performing markets were not exactly powering ahead, but were in a relatively healthy state and readings for key indicators were by and large encouraging, if not spectacular.

Then came March and with it a series of lockdowns around the world as the pandemic took hold. With large parts of numerous economies suddenly shuttered, investors went into a panic and stock markets plunged. Economies also shrank rapidly with final readings showing the March lockdowns pushed overall first quarter economic growth into negative territory.

By the end of April though, stock markets and economies began to take very different paths.

"Stock prices are only tenuously connected to general economic conditions."

John Rekenthaler
Vice President of Research at global fund ratings agency Morningstar

The measures introduced by many governments to stop the spread of the virus ravaged economies in the second quarter of the year. The US economy contracted 9.5% between April and June. In the UK, it was even worse, shrinking 20.4%. Japan's economy lost 7.8%, and the Eurozone economy shrank 12.1%. Meanwhile, unemployment rose as firms closed or were forced to lay off staff, and companies issued dire warnings about their futures.

Economies began to re-open in the third quarter, but improvement has been sluggish and the end of worker support schemes in major economies has led to predictions of a surge in unemployment in the fourth quarter.

Rising numbers of infections in many countries and the re-introduction of lockdowns in October have only added to the gloomy outlook.

But while economies suffered, a number of key stock markets have since made up their lost ground, or are close to doing so, while others – notably in the US – have delivered astonishing performance.

The Nasdaq and S&P 500 were, as of October 16, up 30% and 7.8% year to date.

The situation is similar, although not as spectacularly good, in some other markets: the Shanghai Composite in China – whose economy contracted 9.8% in the first quarter of the year after lockdown was declared – was up over 8% for the year, while Japan's Nikkei 225 was also in positive territory.

But it is the tearaway performance on US markets which has stood out and, analysts and economists say, highlighted an important disconnect between economies and stock markets.

As John Rekenthaler, Vice President of Research at global fund ratings agency Morningstar, said in an analysis in October: "Stock prices are only tenuously connected to general economic conditions."

Why the dissonance?

The starkly contrasting performance is down to a few key factors, some of which have applied historically and some of which are specific to the pandemic-dominated present.

The first of these is that, as has always been the case, investors tend to look forward, putting their money into markets now, based on what they believe is likely to happen in six months, a year, 18 months or even longer into the future.

Analysts explain that while economies may not be so bright at the moment, investors are banking on things being better in the future. "Stocks anticipate future developments rather than dwell on current affairs… neither employment statistics nor GDP growth directly affect equity prices. The primary drivers are instead two sets of expectations: 1) future earnings and 2) future interest rates, with the latter being used to discount the former," explained Rekenthaler.

One specific example of how markets look forward rather than back has been their response to positive news on the production of a Covid vaccine. Since the start of the pandemic, news of progress on producing a vaccine – or to a lesser extent potential treatments for the disease – has led to a boost for markets.

"The historically low interest rates encourage investment in the stock market, as fixed-income investing offers negligible returns. For investors seeking investment growth, there aren't many alternatives to the stock market."

Barbara Freiburg
Investment portfolio manager

According to research from investment bank UBS, around 40% of US market gains between May and mid-September can be linked to hopes for a Covid vaccine.

Market watchers say that with so many vaccines being worked on – the latest count is more than 130 different vaccines in development and different stages – many investors seem confident that one will be ready for roll out in the not too distant future which will help economies and businesses (as well as their profits).

Liz Young, director of market strategy at BNY Mellon Investment Management told Reuters: "We are setting ourselves up for success in the sense of if you throw enough spaghetti at the wall, hopefully at least one noodle sticks."

Keith Parker, head of US and global equity strategy at UBS said that an approved, broadly-distributed and accepted vaccine could lead to the S&P 500 rising more than 8%.

Another reason why markets have been doing so well is the abundance of cheap money available. Since the start of the coronavirus crisis central banks around the world have taken action to try and help cushion the effects of the virus on their economies.

Many have pushed rates to close to, if not actually at or even below, zero, providing investors the opportunity to borrow money essentially for free.

"Interest rates and federal monetary policy also impact the stock market… Current policies such as setting historically low interest rates and buying bonds are growing demand for publicly traded stocks," investment portfolio manager Barbara Freiburg wrote for the usnews.com website.

"The historically low interest rates encourage investment in the stock market, as fixed-income investing offers negligible returns. For investors seeking investment growth, there aren't many alternatives to the stock market," Freiburg added.

A third factor is fear among investors of missing out. This is not specific to the current crisis but has been very clearly seen during it.

With markets rallying and lots of cheap money around, more and more investors are worrying that they may not see these same kind of conditions – cheap money, stocks rallying strongly – for some time and want to take advantage while it lasts.

"We can conclude that the equity market indeed appears to have decoupled from the economy to some degree. This divergence could persist for a long time."

Oliver Hackel
CFA Macro and Investment Strategy, Behavioural Finance and Technical Analysis at Kaiser Partner Privatbank

In an article for investors, Julianne F. Andrews, co-founder at investment advisers Atlanta Financial Associates, said: "It's long been understood that at times, investors may be driven by emotional or reaction-based decision-making. As a result, their behaviour may not be mimicking the economy's current state nor affairs happening in real-time but be based more on the fear of missing a market upturn."

Meanwhile, Dr Mohammed El-Erian, a former Deputy Director at the International Monetary Fund and economic and market columnist, told Bloomberg news agency: "Increasingly this market believes there is no alternative to equities, equities are your risk mitigator, equities are your upside claim, equities can do everything for you because everything else looks worse than equities. That has worked. So, there is a massive fear of missing out."

This same fear of missing out is also evident at a stock specific level with stocks seen to be 'benefitting' from the current situation, for example pharmaceutical and health firms involved in vaccine production or other Covid-related areas such as treatments, seeing heavy investment.

For example, at the end of September, Novavax, a late-stage biotechnology company working on vaccine development has seen a 2,400% rise in its share price since the beginning of the year. This was driven by its Covid-19 vaccine development work.

Meanwhile, tech companies or firms working in areas providing goods and services people need to work or study from home, have also seen their share prices rise. In the case of some tech firms the gains have been dramatic. The tech heavy Nasdaq index hit a record high at the start of April and as of October 12 had risen 75% from its coronavirus-induced low earlier this year. At the same time Apple became the first US company to achieve a market valuation of USD 2 trillion.

This compares to shares of companies in other sectors which have suffered during the crisis, such as smaller firms, those in retail, travel, or the energy sector, among others.

According to research from investment bank UBS, around 40% of US market gains between May and mid-September can be linked to hopes for a Covid vaccine.

"It's really only a part of the stock market that is doing well, such as the intangible companies like technology and communication," Roger Ibbotson, a professor at the Yale School of Management, told usnews.com.

How long?

While for the last six months stock markets and economies have been indulging in the kind of prominent uncoupling normally reserved for Hollywood stars and pop musicians, the big question for investors is how long is this dissonance likely to continue? Will markets eventually get back in line with economies or will they be permanently decoupled?

In an October note to investors, Oliver Hackel, CFA Macro and Investment Strategy, Behavioural Finance and Technical Analysis at Kaiser Partner Privatbank, said: “We can conclude that the equity market indeed appears to have decoupled from the economy to some degree. This divergence could persist for a long time, true to the adage that ‘the market can stay irrational longer than you can stay solvent’.

“If the equity bull market is being driven mainly by the TINA (There Is No Alternative) argument, then its end isn’t necessarily in sight yet. However, such a decoupling is unlikely to be sustainable because stock-market history also teaches that economic fundamentals eventually always do matter at some point.”

In the meantime, markets seem likely to continue to be driven in large part by investor views on vaccine and stimulus prospects.

“Currently, investors believe there will be a scientific solution to the virus, and until that happens, the Federal Reserve will continue to provide support for investors in terms of liquidity and low interest rates,” Amy Bush, chief investment strategist at Tandem Wealth Advisors in Phoenix, told usnews.com.

As of October, although coronavirus infection rates were rising markedly in many places across the world, more and more government and health officials, as well as market analysts, are saying they believe a vaccine could be developed and ready to give to people in the first quarter of next year.

Novavax, a late-stage biotechnology company working on vaccine development has seen a 2,400% rise in its share price since the beginning of the year.

Meanwhile, the US Federal Reserve, along with other major central banks, is not going to be raising rates any time soon and there is hope of another massive fiscal stimulus package in the US to boost businesses and employment, even if the outcome of the US presidential election at the start of November may affect the size and exact nature of that stimulus (see our story on the presidential election in this issue).

This will, in turn, help keep market valuations high in the near future, experts say.

In a report released in mid-October, the International Monetary Fund (IMF) said: “As long as investors believe that markets will continue to benefit from policy support, asset valuations may stay elevated for some time.” ■

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WORLD MARKETS UPDATE

GLOBAL

Falls on stock markets around the world at the end of October dragged the overall performance of global equities into negative territory.

Many markets saw big drops in the month's final sessions as investors fretted over volatility ahead of the US presidential election and a worsening coronavirus situation in both the US and Europe. A number of key European economies are preparing for fresh lockdowns while the US continues to struggle to get to grips with its outbreak amid reports of thousands dying per day and hospital capacity in the country being pushed close to its limits. Meanwhile, drawn-out, and seemingly interminable US stimulus negotiations also weighed on sentiment, while there were concerns over whether the recent tech rally may have been overhyped as results from some of Wall Street's largest companies left investors underwhelmed.

Economic data remained mixed, although there were some encouraging signs in the US and Europe that economies were rebounding. Investors, however, appeared to look beyond this, instead focusing on the inevitable lockdowns to come over the next month or more.

US

S&P 500	-2.7%	Dow Jones	-4.5%
MSCI USA	-2.1%	NASDAQ	-2.3%

In the US, steep rises in coronavirus cases both at home and in Europe weighed on sentiment, especially at the end of the month when Wall Street saw some sharp falls. The wrangling throughout the month over a new stimulus package was another drag on the market, while investors also kept a wary eye on political developments ahead of the presidential elections at the start of November.

As the month closed polls had Democratic party candidate Joe Biden well ahead of incumbent Donald Trump, but with the race much closer in key swing states and Trump having suggested he may contest the result if he loses, there were fears among investors of extreme volatility were there to be no clear winner declared on November 3. Meanwhile, tech firms came under pressure towards the end of the month as results from some of Wall Street's largest companies left investors underwhelmed.

Latest economic data was generally positive. GDP growth came in at 33.1% in the third quarter, exceeding expectations, while labour market data was also better than predicted. Official readings also showed durable goods orders rose more than expected in September while manufacturing activity also improved. Personal income and spending in the same month also came in above expectations.

Europe

MSCI EMU	-5.6%	DAX	-9.4%
FTSE 100	-4.7%	CAC 40	-4.4%

Coronavirus concerns once again dominated sentiment on European markets as states across the continent began to either implement or prepare for a significant tightening of restrictions or fresh lockdowns.

Investor fears of the economic effects of businesses being forced to close again weighed on local stocks, especially towards the end of the month as infection numbers rose and governments appeared increasingly panicked. US political worries and the lack of any progress on a US stimulus package added to the increasingly pessimistic mood on markets. With lockdowns being put into place, the stuttering recovery of the Eurozone economy appears to be under threat. During the month European Central Bank President Christine Lagarde said that recovery risked "losing momentum" as restrictions are put into place, and pointed out that "both fiscal support and monetary policy support have to remain in place for as long as necessary and 'cliff effects' must be avoided."

Regional economic data was mixed at best. Surveys suggested Eurozone business activity contracted in October with the IHS Markit's Flash Composite Purchasing Managers' Index (PMI) reading falling to 49.4. However, the region's economic growth was better than expected in the third quarter, expanding 12.7% with the German and Spanish economies growing at record rates.

UK equities were not immune from the growing gloom as case numbers across the country rose steeply and various forms of lockdown were imposed in different regions. At the very end of the month, Prime Minister Boris Johnson announced a national lockdown in all but name. Meanwhile, further Brexit developments continued to move the local market during October. With the end of the transition period fast approaching, talks between Westminster and Brussels stalled, then appeared to completely end, before starting up again. The UK government has told local businesses to prepare for a no-deal trading scenario as of 1 January 2021, although hopes remain that both sides can reach some kind of eleventh hour agreement to cover trade from the start of next year.

Before the national lockdown announced at the end of the month, data had suggested that the recent rise in Covid cases has taken a toll on key parts of the economy. The Confederation of British Industry's (CBI) monthly retail sales index fell to -23 in October – the gauge's lowest level since June. Cutbacks in government support for furloughed workers and growing caution among consumers was suggested as being behind the fall, while rising unemployment was also thought to be a key factor. Following the national lockdown announcement, shares in some key sectors, such as hospitality, were predicted to be in for a rough ride in the coming weeks, while some economists have suggested the restrictions, which will see many businesses shuttered again, could push the economy into a double dip recession.

Asia

MSCI Australia	0.0%	Shanghai Composite	0.2%
MSCI ASEAN	0.5%	Nikkei 225	-0.9%
KOSPI	-2.6%	SENSEX	4.3%

As elsewhere, Japanese stocks' performance was capped at the end of the month as coronavirus and US political concerns weighed on sentiment. Economic news continues to provide little cheer. At its October meeting, the central bank cut its growth outlook for the 2020 fiscal year, which ends in March 2021. This came as the latest data showed retail sales in September were down 8.7% y-o-y. This was the seventh consecutive month that retail sales were below the corresponding period of 2019. However, industrial output was up for the fourth month in a row, rising 4% from August, and although exports fell 4.9% y-o-y, the fall was the smallest in seven months.

Chinese shares were flat for the month, as investors digested both continuing global, if not domestic, coronavirus concerns, and US political news and stimulus negotiations, as well as positive domestic economic readings. During the month, the country's stock market capitalization went above USD 10 trillion for only the second time in history, having briefly crossed that threshold in 2015. This came amid strong buying as the country continues to recover well from the coronavirus crisis. Official data showed the Chinese economy grew 4.9% in the third quarter from a year earlier while Chinese industrial sector profits came in 10% higher y-o-y in September, and 1.2% m-o-m, on the back of strong growth in electronic equipment manufacturing. The data suggests the Chinese economy is doing better than many others in recovering from the effects of the pandemic – compared to the US and Europe where, according to reports, industrial activity remains 3% to 7% below pre-crisis levels. Meanwhile, Chinese fintech company Ant Group, a branch of the Chinese e-commerce giant Alibaba, is getting ready for what is expected to be the largest initial public offering (IPO) in history. The company is hoping to raise USD 35 billion in a dual Hong Kong-Shanghai listing in early November. Analysts see the deal as underscoring China's leading status in so-called 'new economy' sectors.

Indian stocks did well in October, with the main Sensex and Nifty benchmarks posting their best monthly performances since July. There were strong gains in the first half of the month with IT and bank shares among the best performers. The latter got a boost after the central bank kept interest rates steady but announced measures to boost liquidity and lending. However, they succumbed to some profit-booking later in the month. October closed on a down note as investors fretted over rising Covid cases globally and fresh lockdowns in Europe. Uncertainty ahead of the US presidential election at the start of November also weighed on sentiment. In other news, central bank officials have said that the country's economy could move back into expansion territory by the fourth quarter of this year. But the World Bank has forecast India's GDP to contract by 9.6% in the fiscal year that started in March.

South Korean equities posted their biggest monthly loss since March as local sentiment was weighed down by uncertainty over the US presidential election and concerns about rising coronavirus cases around the world. Local cases remain relatively low in number compared to some other parts of the globe – just over a hundred per day as October drew to a close – but there are concerns over the effects lockdowns in Europe and other major markets could have on the Korean economy and its largest companies. Meanwhile, South Korea's economy returned to growth in the third quarter of the year, expanding 1.9%. Asia's fourth-largest economy had contracted 3.2% in the second quarter of the year. The expansion comes after the Korean government implemented stimulus packages and coronavirus restrictions were loosened by key trading partners.

South-East Asian equities, as proxied by the MSCI ASEAN index, were marginally higher for the month, mirroring the more positive wider Asian performance. In Singapore, shares struggled to make headway amid a degree of volatility as US politicians wrangled over a longed-for stimulus package and investors worried over rising global coronavirus cases and lockdowns, as well as the US presidential election. Official data showed Singapore's economy contracted by 7% y-o-y in 3Q2020, but expanded 7.9% q-o-q. This was driven mainly by growth in the manufacturing sector. But unemployment rose with the city state's jobless rate hitting 3.6% in September, up from 3.4% in August.

Elsewhere around the region, Thailand's finance ministry released an upgraded forecast for the economy, saying that it would contract only 7.7% in 2020, rather than 8.5% as previously predicted. This is due to government stimulus cushioning the effects of the pandemic, officials said. In Indonesia, the country's Financial Services Authority (OJK) said it will extend loan restructuring incentives for some banks until March 2022, amid concerns that the number of bad loans could jump as the economy continues to recover from the economic effects of the coronavirus crisis.

Meanwhile, new research into business integrity in the region has shown that Malaysian and Thai companies are among the best in terms of disclosing business integrity practices. A study by Singapore's NUS Business School's Centre for Governance, Institutions and Organisations (CGIO) and Asean CSR Network, ranked the 50 largest companies as at the end of March on the stock exchanges of Indonesia, Malaysia, the Philippines, Singapore and Thailand on matters related to anti-corruption practices and policies. Malaysian companies achieved the highest disclosure level, followed by Thai firms.

October was a tale of two halves for Australian equities as strong gains in the first fortnight of the month were capped later as US presidential election caution and global coronavirus concerns held the local market back. The gains early in the month were driven in large part by announcements of fiscal and monetary support for the economy – a budget was announced which included measures to prop up jobs and businesses as well as tax cuts for individual earners, while the central bank said official rates would fall to just 0.1% from November. Meanwhile, latest economic data has shown a rise in consumer sentiment in October, while the preliminary composite Purchasing Managers' Index (PMI) reading for the same month came in at 53.6, up 2.5 points on the September number.

Latin America

MSCI Latin America	-1.1%	MSCI Chile	-0.2%
MSCI Brazil 25-50	-2.6%	MSCI Mexico	2.3%
MSCI Colombia	-1.1%	MSCI Argentina	-0.3%

The late-month weakness in world markets affected most Latin American markets, although performance across the region for October was not quite as poor as in many major developed markets.

Brazilian equities ended lower after heavy falls in the month's final sessions, with the Sao Paulo Stock Exchange, the main financial centre in Latin America, seeing its heaviest one day fall in six months. This came as countries in Europe announced new lockdowns and virus-related restrictions, which are expected to affect local companies in the tourism and travel sectors and cause worries for other companies who fear the knock-on effects for the wider global economy. Brazil's own battle with the virus has been a long one and concern is growing about a fiscal crisis. The country's central bank has said Brazil's gross public debt reached more than 90% of GDP in September, which is a new record. Public spending has jumped since the start of the crisis as the government has moved to support the jobless and poor while trying to prop up the economy.

In Mexico, shares finished up for the period. This came as preliminary data showed the region's second most important economy grew 12% in the third quarter of the year, making up much of the ground lost in the previous quarter which saw a steep contraction as lockdown measures at home and abroad were implemented. Rising US demand helped drive the growth, but domestic demand continues to lag.

Elsewhere, sentiment in Chile was dampened not only by global virus concerns but by domestic news amid fears proposed new legislation on pension withdrawals could see outflows from the equity market. The newly proposed law comes just months after separate legislation – designed to help mitigate the effects of the pandemic on families – was approved allowing Chileans to withdraw a certain amount from their pension funds.

Africa

MSCI FM Africa	5.4%	FTSE/JSE	-0.7%
MSCI South Africa	0.5%	MSCI Egypt	-6.3%
MSCI Kenya	-0.6%	MSCI Nigeria	14.5%

Equities in the major African markets were up overall for the month, although October saw divergent performance across the continent's key markets.

Nigerian benchmarks posted outsized gains, with local stocks hitting a 16-month high at one point as funds poured money into equities amid lower interest rates after a central bank cut and good third-quarter corporate earnings from local companies. Banking and consumer goods names were among the best performers. The strong performance on the local bourse during the month came despite warnings that ongoing civil unrest in the country could harm both stock market performance and the longer-term outlook for the economy. Recent weeks have seen violent protests in Lagos over police brutality, but the local market remained largely unmoved by it. Analysts suggested this may have been due in large part to liquidity constraints in the foreign exchange market, which has made selling activities by foreign investors impossible. However, International Monetary Fund (IMF) officials warned after the protests began that any lengthy disruption to daily life in Lagos – a major financial centre in the country – could have an effect on the country's economic outlook. Meanwhile, latest research from the central bank has shown that although consumer confidence fell in the third quarter of the year, consumers are more positive about the outlook for the next quarter and 12 months ahead as they expect household income to rise and the Nigerian economy to improve.

In South Africa, a slew of negative sessions at the end of the month pushed the FTSE/JSE benchmark into the red for October as investors fretted over the pandemic situation in the rest of the world, and the US presidential election. Mining and bank stocks were among those hardest hit as the local market turned downwards. Meanwhile, Finance Minister Tito Mboweni unveiled a mid-term budget which included pledges to freeze public sector wages for the next three years as it looks to keep control of a burgeoning budget deficit. The government said that the economy is now forecast to contract 7.8% this year and that gross debt will peak at more than 95% of GDP in 2025/26, which is above a target set in an emergency coronavirus budget in June.

In Kenya, stocks finished marginally lower overall with mixed performance on local markets. There were some notable falls for some prominent large cap stocks, such as EABL, KCB, and Equity and Cooperative Bank. Meanwhile, October saw the release of some poor economic news with official data showing the economy contracted for the first time in over a decade, shrinking 5.7% in the second quarter. This compared to growth of 5.3% in the same period of 2019. ■

To get in touch speak to your Regional Sales Manager or email us at ***newsletter@1cornhill.com***

Cornhill Sales Diary

Even though staying at home is the safest course of action during the current pandemic, Cornhill remains fully open for business. Your sales representatives are more than happy to provide assistance via calls or virtual meetings.

Covid 19