

Monthly Market Summary



October 2020

Summary: Stocks fall with renewed lockdowns

Global equities fell for a second consecutive month in October -2.4% (in USD terms), after having started the month on a positive note, whilst government bonds fell slightly -0.1% (in USD terms). Key events included:

- European lockdowns reinstated as infections spread;
- ECB hints at further policy action; US stimulus stalemate persists;
- China's GDP expands beyond pre-pandemic levels.

October saw "risk-off" sentiment prevail – particularly in the concluding week of the month – as a second wave of contagion gathered momentum with renewed suppression announced in major European countries. Implied volatility, as measured by the VIX index, reached levels of almost 40 – twice its long-run average. Treasury yields moved higher, with the US curve (2s10s) steepening to its widest level since early 2018. Within currencies, CHF and JPY gained on risk aversion, while USD and EUR fell. Meanwhile, oil (Brent, -8.5%) fell on fears that renewed virus measures would curb demand, and also gold ended the month lower (-0.4%).

US: Q3 GDP rebound, Stimulus stalemate, "Risk-off" sentiment

US economic activity staged a strong rebound in the third quarter as GDP surged +7.4% (q/q%, SA), though economic output is yet to return to pre-pandemic levels. Retail sales expanded +1.6% (MoM) in September, its biggest rise in three months and the October ISM Manufacturing PMI neared a two-year high (59.3), despite the ongoing surge in US infections. Meanwhile, US equities fell (-2.7%) as investor optimism faded despite better than feared corporate results, with a majority of US companies beating subdued Q3 expectations. Impacting sentiment negatively: Congress failed to reach an agreement on the next fiscal support aid, contagion rates edged higher in many states, and the presidential campaign reached its final stretch.

Europe: Renewed lockdowns, Services lag, Dovish ECB

Eurozone GDP rebounded more-than-expected in the third quarter (+12.7%, SA) although re-introduced lockdowns in response to an accelerating second wave of contagion blurs the path of recovery ahead. Having registered new daily records in cases, France and Germany announced stricter measures, and Spain declared a state of emergency. October readings for Eurozone PMIs offered a mixed picture as services contracted for a second consecutive month (46.2), while manufacturing activity improved (54.8) – helped by strong factory activity in Germany (58.2). Meanwhile, inflation in the bloc fell for a third month (-0.3%, YoY), and on policy, a dovish ECB hinted at more easing in December while leaving rates and the scope of its existing asset purchase program (APP) at €1.35 trillion euros, unchanged.

ROW: China's recovery, BoJ policy unchanged, India's cases

China's ongoing recovery ('first in, first out') continued in October, albeit at a slightly slower pace, as factory activity (PMI) fell to 51.4, still firmly in expansionary territory. Industrial production rose +6.9% (YoY) – its highest level this year – and retail sales, which have lagged the wider recovery, grew +3.3% (YoY) in September. Having expanded by +2.7% in the third quarter (GDP, SA), China's economy is now larger than before the pandemic took hold. Elsewhere, the Bank of Japan lowered its growth forecast for 2020 and kept its monetary policy unchanged, and retail sales fell for a seventh straight month in September (-8.7%, YoY). In India, a Covid-19 hotspot and second in the world as measured by total cases (as we write), encouragingly saw daily new cases ease in October.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	0.88%	-1.3%	8.5%
UK 10 Yr	0.26%	-0.2%	3.2%
Swiss 10 Yr	-0.53%	0.2%	-0.3%
German 10 Yr	-0.63%	0.8%	1.6%
Global IG (hdg \$)	1.62%	0.1%	5.9%
Global HY (hdg \$)	5.96%	0.2%	1.8%

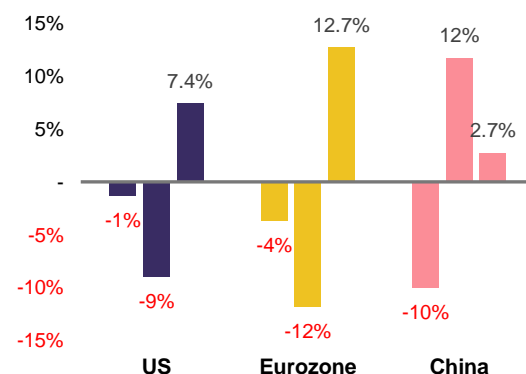
Equity Index	Level	1M %	1 Yr %
S&P 500	3'270	-2.7%	9.7%
MSCI UK	9'257	-5.1%	-22.2%
SMI	9'587	-5.9%	-3.1%
Eurostoxx 50	2'958	-7.3%	-15.7%
Nikkei	22'977	-0.9%	2.2%
Hang Seng	24'107	2.8%	-7.5%
MSCI World (lcl)	266	-2.5%	4.2%
MSCI World (\$)	279	-2.4%	4.9%

Currencies (trade-weighted, nominal)

US Dollar	-1.0%	-0.1%
Euro	-0.5%	5.7%
Yen	0.1%	1.4%
Pound Sterling	0.4%	-1.7%
Swiss Franc	0.6%	5.8%
Chinese Yuan	1.2%	4.6%

Other	Level	1M %	1 Yr %
VIX	38.0	44.2%	187.6%
Brent (\$/b)	37.5	-8.5%	-37.8%
Gold (\$/oz)	1'879	-0.4%	24.2%

GDP development: Q1 to Q3 (q/q%, SA)



Source: Bloomberg, Rothschild & Co



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