

Monthly Market Summary



September 2020

Summary: The second wave and the stock momentum fade

Global equities whipsawed in September and ended the month down -3.2% (in USD), posting their first monthly loss since March, whilst government bonds rallied +0.6% (in USD). Key events included:

- A pronounced second wave of infections in Europe; targeted restrictions;
- Global stocks lose momentum, but economic recovery remains robust;
- China continues to lead the recovery.

Global contagion rates reached record daily highs in major European countries. Corresponding fatalities rates – so far – remain subdued; restrictions have been localised and targeted. Global stocks reversed recent gains in September, driven largely by technology. Safe havens – USD, JPY – gained on risk aversion and government bonds remained stable, with implied treasury volatility hitting a record low. Meanwhile oil (Brent, -9.6%) declined on fears of a slowing recovery, and oversupply. Gold also declined (-4.2%) following a record high in August.

US: Recovery slows, Stimulus impasse, Electoral noise

The US economy continued to recover, albeit more slowly in September. US retail sales expanded modestly (+0.6% in August), though remain above pre-pandemic levels. Similarly, the ISM manufacturing survey declined in September (55.4 vs 56), though marks the fourth consecutive month of expansion. US housing activity continued at a strong pace with new home sales rising (+4.8% saar) to a 14-year high. On policy, the Fed remains dovish leaving interest rates unchanged, signalling an even lower for longer stance. A further US relief package remains in stalemate with disagreement between Republicans and Democrats over the size. Meanwhile, Biden maintains a narrowing lead in the polls after the first (of three) presidential debates proved indecisive.

Europe: Surveys fade, EU's Green economy, Brexit Bill

A distinct second wave of infections emerged across Europe. September readings for Eurozone composite PMIs came in weaker – Spain and Italy contracted. Similarly, August retail sales were mixed: UK, Germany and France are all above pre-pandemic levels, while Spain and Greece lag. The European Commission announced that 30% (€225bn) of the €750bn pandemic recovery fund will be financed through the issuance of 'green' bonds, aligning with the EU's green ambitions. Additional fiscal stimulus measures were announced in the UK, with the job-retention scheme following the German model – flexible wage subsidies based on hours worked. Meanwhile, as Brexit looms, political manoeuvring continues, including the UK's proposed 'internal market bill'; key sticking points – fisheries and state aid – still unresolved.

ROW: China's supply-side, Japan's lag, India's outbreak

China's rebound gained momentum in September: manufacturing PMIs expanded to 51.5 – beating expectations; retail sales rose in August for the first time this year (+0.5% y/y), and industrial production rose 5.6% (y/y), with the manufacturing sector already back at full capacity. Elsewhere, Japan's rebound continues albeit behind other developed countries: the quarterly Tankan survey (-27) showed an improvement from June (-34). Meanwhile, despite rapidly increasing infection rates, India's manufacturing activity (PMI) jumped to 56.8 in September – its highest reading in 8 years. Geopolitically, tensions mount between China and India over border dispute, whilst trade and security tensions between China and the US continue to escalate.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	0.68%	0.3%	10.1%
UK 10 Yr	0.23%	0.7%	2.5%
Swiss 10 Yr	-0.49%	0.7%	-2.0%
German 10 Yr	-0.52%	0.8%	-0.6%
Global IG (hdg \$)	1.64%	-0.0%	6.2%
Global HY (hdg \$)	5.94%	-1.5%	2.0%

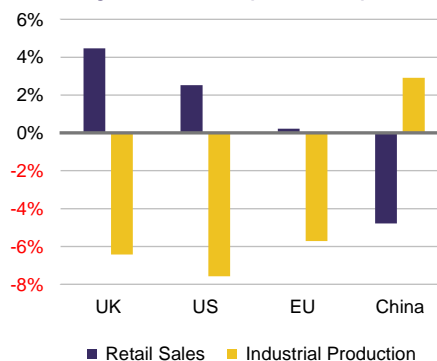
Equity Index	Level	1M %	1 Yr %
S&P 500	3,363	-3.8%	15.1%
MSCI UK	9,751	-1.6%	-19.8%
SMI	10,187	0.6%	4.4%
Eurostoxx 50	3,194	-2.3%	-8.0%
Nikkei	23,185	0.7%	8.5%
Hang Seng	23,459	-6.4%	-7.0%
MSCI World (lcl)	272	-2.7%	9.0%
MSCI World (\$)	286	-3.2%	10.4%

Currencies (trade-weighted, nominal)

US Dollar	1.0%	-0.4%
Euro	-0.3%	4.5%
Yen	0.2%	-1.4%
Pound Sterling	-2.1%	0.5%
Swiss Franc	-1.2%	2.7%
Chinese Yuan	1.3%	4.0%

Other	Level	1M %	1 Yr %
VIX	26.4	-0.2%	62.4%
Brent (\$/b)	41.0	-9.6%	-32.6%
Gold (\$/oz)	1,886	-4.2%	28.1%

Activity indicators (YTD % Δ)



Source: Bloomberg, Rothschild & Co

Data correct to August, apart from UK IP, EU retail sales and EU IP, which are correct to July.



Important information

This document is produced by Rothschild & Co Bank AG, Zollikerstrasse 181, 8034 Zurich (hereinafter referred to as "Rothschild"), for information purposes only and for the sole use of the recipient. Save as specifically agreed in writing by Rothschild, this document must not be copied, reproduced, distributed or passed on in whole or in part, to any other person. This document does not constitute a personal recommendation, an advice, an offer or an invitation to buy or sell securities or any other banking or investment product. Nothing in this document constitutes legal, accounting or tax advice. Although the information and data herein are obtained from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made and, save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild as to or in relation to the fairness, accuracy or completeness of this document or the information forming the basis of this document or for any reliance placed on this document by any person whatsoever. No representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this document. Furthermore, all opinions and data used and disclosed in this document are subject to change without prior notice. Law or other regulation may restrict the distribution of this document in Switzerland or certain other jurisdictions. Accordingly, recipients of this document should inform themselves about and observe all applicable legal and regulatory requirements. Neither this document nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. Rothschild & Co Bank AG is authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA.