Weekly Report and Outlook on Global Markets

30th October 2020

MARKET DEVELOPMENTS

That Was a Crummy Way for the S&P 500 to Close Out October

The second-half of October was a stinker, falling 6.12%, marking the worst performance for the back-half of the month since 1987, based on daily closing prices.

The comparison between now and 1987 is a non-starter given the very different macro backdrops behind the stock market's decline. For example, the Fed was raising rates pushing the fed funds rate to 7.25% in October 1987 versus a measly 0.25% now.

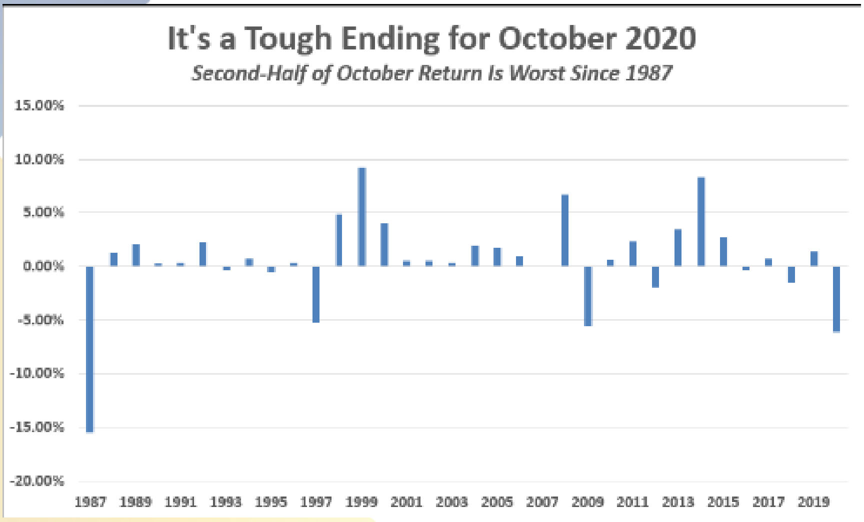


Figure 1: Performance of S&P 500 in the second half of October from 1987 to 2020

The more important point is that investors are selling despite historically strong earnings beats and raised forecasts as we come out of the recession. While the S&P 500 selloff could merely represent a lightening up of positions before the presidential election, there's another factor to consider: A cooling off of the technology fever. The group has been carrying the cap-weighted S&P 500 higher, but this week ushered in the first major crack in its leadership with a break in its parabolic move relative to the broader market.

Where tech goes, the major indexes are most likely to follow. The only caveat to that statement is that banks, energy, health care and other sectors come to the rescue in what would have to end up being one of the most consequential market rotations since the global financial crisis ushered in the age of the tech titan.

MXN/RUB Cross Shows Faith in Biden Victory

If there are growing doubt in markets about a Biden victory in the U.S. presidential election next week, nobody told the EM currency traders. MXN/RUB is a popular bet on Democrats winning the White House, and today it rose to the highest since 2016.

The thinking is that Mexico would benefit from better relations with the U.S. under a Democratic administration, while Russia is likely to suffer from heightened political risk and possibly sa nctions. Whether that's correct matters less than the fact that the trade has become a shorthand for a Biden victory.

Figure 2: Performance of MXN/RUB Pair

There are probably other things going on here, too. Mexico is a manufacturing economy that exports to the U.S. Russia sells oil and gas, a lot of it to Europe. So widening Covid-19 lockdowns in Western Europe should weigh on RUB more than MXN. And in general, manufacturing exporters would be likely to benefit more from a return to trade peace under a possible Biden administration than commodity exporters.

Munis May Yet Face Reckoning From Stimulus Failure

Municipal bonds haven't shown much concern at the failure of stimulus negotiations. But the combination of further stimulus deadlock and a harsh fall/winter season of rising Covid-19 infection rates could turn that around.

Figure 3: Bloomberg Barclays Municipal Bond Index

The Bloomberg Barclays Municipal Bond TR index is down only about 1.25% from its August peak, which is a hair better than the broader U.S. aggregate index. But munis could cease to be the safe parking space for fixed-income cash. The first risk is that the Fed's Municipal Liquidity Facility (MLF) can expire at the end of December, as Bloomberg colleague Joe Mysak pointed out earlier this week. Considering how much of a barrier federal aid to states was to the stimulus bill, munis could end up riding the political roller-coaster downwards if states, counties and towns don't get help.

The slump in tax revenues shortfall is not as bad as expectations yet, now we face the fall/winter season under the cloud of Covid-19. That threatens tax receipts from retail sales and value-added goods and services.

Cotton in longest rally since 1980 on Shrinking U.S. Crop

Figure 4: Monthly Change of Cotton Futures in New York

Cotton prices are set to rise for the seventh straight month in New York, the longest rally in four decades, propelled by adverse weather that has reduced global output, particularly in the U.S., the top exporter. American production is shrinking, with quality also hurt by repeated hurricanes hitting the Gulf of Mexico and the southeast regions. At the same time, demand is recovering as China, the biggest user, tries to refill its reserves while also meeting trade obligations with Washington.

MAJOR MOVES THIS WEEKS

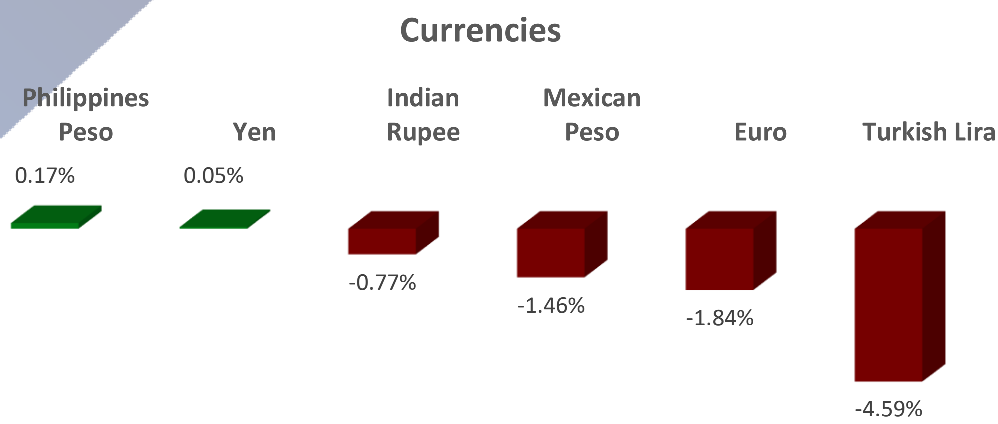


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week

The risk off sentiment in the world drove the dollar higher which acts as a haven. This resulted in falling euro and almost all the other currencies in the world. However, there were a few exceptions like the Thai baht, Indonesian Rupiah and a few other Asian currencies which held their ground.

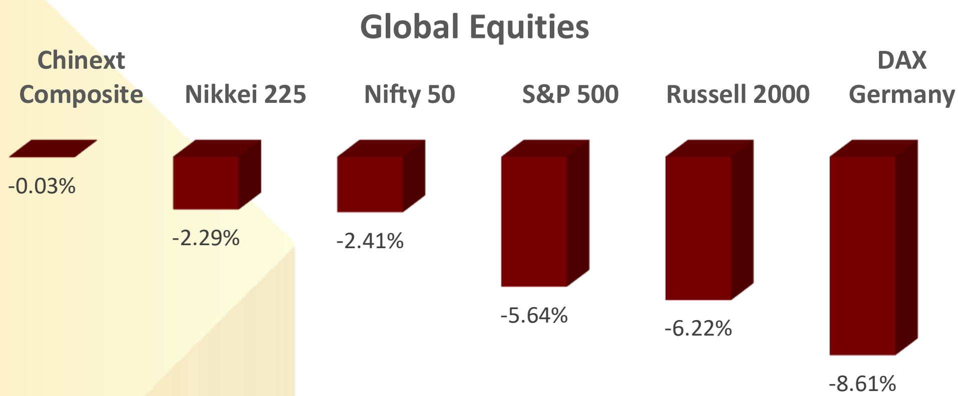


Figure 6: The chart represents the equity index returns over this week.

With most of the companies in US giving their forecast for the next quarter and year, the market players have resorted to sell on good news strategy which drove all the equity markets around the world to their worst performing week in a while. The damage was more in Europe with the initiation of new lockdowns due to increasing Covid-19 cases.

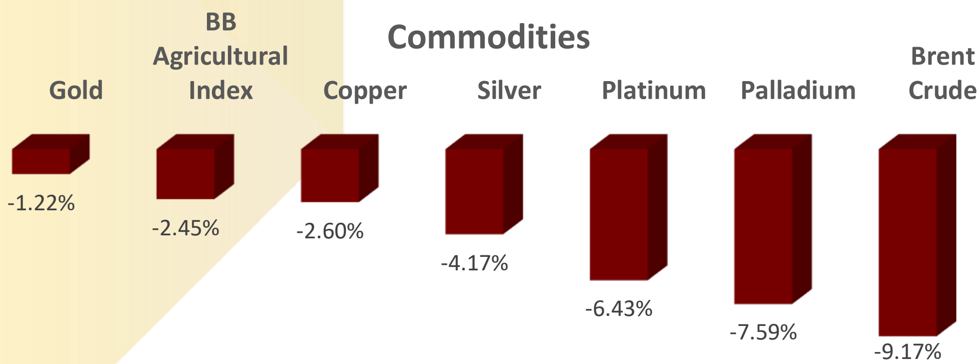


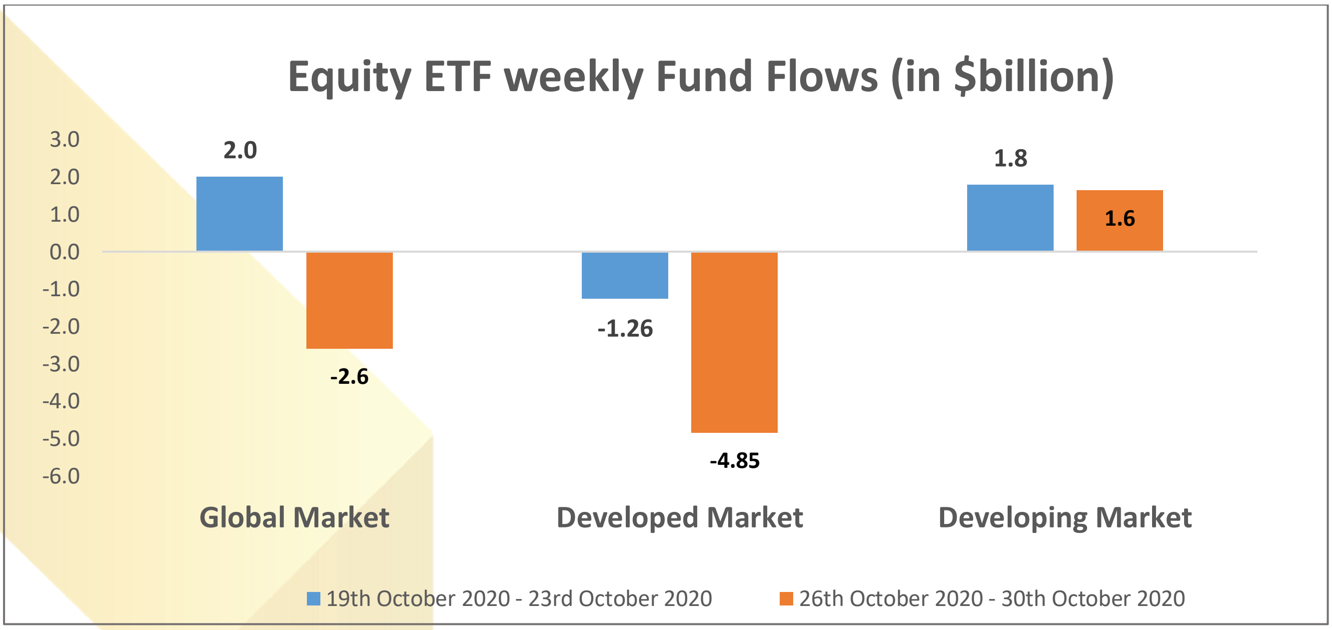
Figure 7: The chart represents the commodity returns over the week.

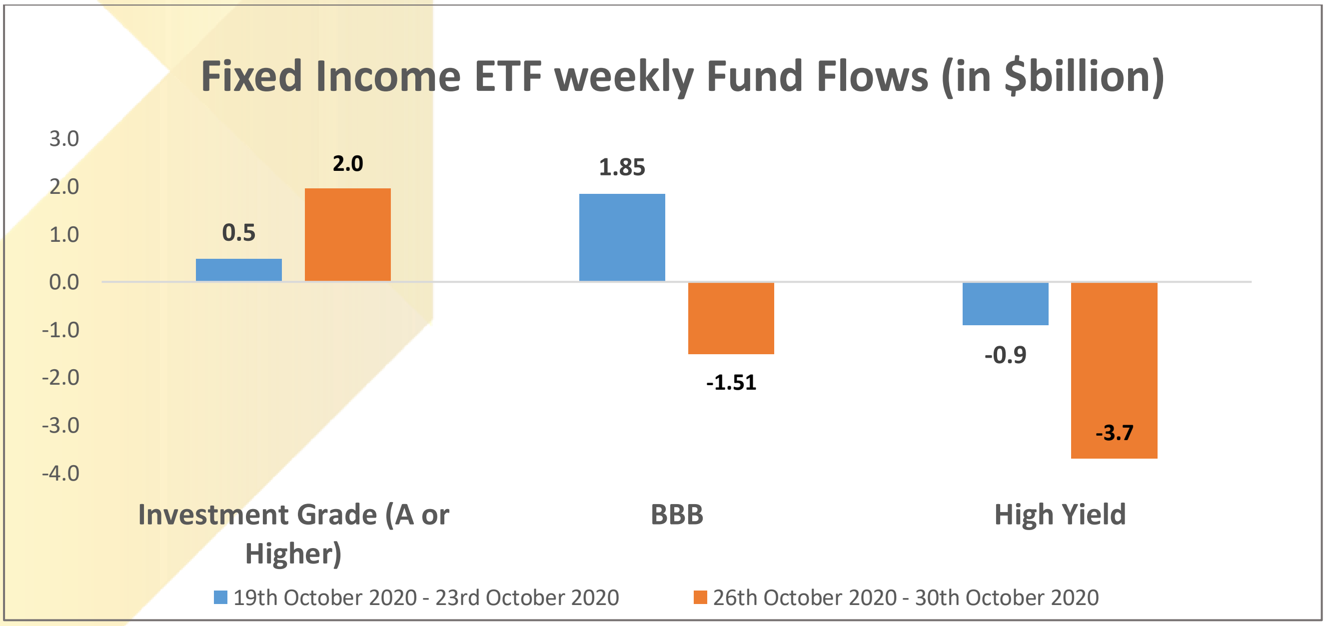
This was one of the worst weeks for Crude which fell due to new lockdowns imposed in Europe and increase of supply from Libya. Most other commodities, being highly correlated with Euro, took a beating this week.

GLOBAL FUND MANAGERS' STATEMENTS

1) Stanley Druckenmiller (Former chairman of Duquesne Capital) : He is betting on a democratic 'Blue Wave' and expects to dollar to weaken. He also said "We have borrowed so much that I'm skeptical that three to five years out that equities will give us any kind of return. If a successful COVID-19 vaccine and fiscal stimulus boost is delivered, some stocks should perform better in the next few months" – In an interview with Business Insider.

GLOBAL WEEKLY ETF FLOWS





Please note that the Global ETF fund flows under Equity ETF weekly flows category will not be equal to the sum of their respective sub-categories which are mentioned on their right side since there are other subcategories as well

PACE 360'S FUTURE OUTLOOK

" We continue to believe that the global risk assets have more downside than upside in them. However, the highlight of the coming week is going to be US elections and they will largely determine the course of all asset classes next week. A clear democratic sweep could move the markets up in the short term before their eventual move down. Every other outcome will be met with scepticism and downsides opening in the short term too. We also see EM assets underperforming their counterparts from Developed countries in the weeks to come. We continue to be very constructive on gold for the long term."

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