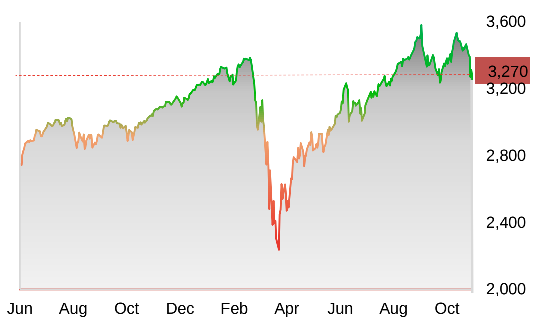
Global Market Watch

Global markets
Periodic
November 3, 2020

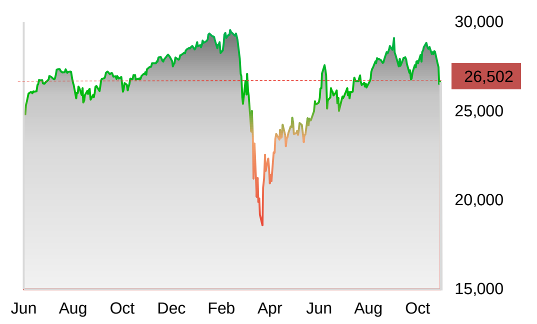
What's moving markets

- Second half of October has seen surge in market volatility, caused by uncertainty ahead of US elections on the one hand and spikes in virus numbers and lack of US stimulus package, on the other. Despite narrowing gap, Joe Biden still remains ahead of Trump for the next presidency, nevertheless, investors believe that implementation of tax increases wouldn't be possible in case of Biden win, as the economy remains under pressure.
- Growing COVID cases around the globe have caused short-term correction of the markets in the second half of October. In US, number of coronavirus cases spiked in 13 states. In Europe, increasing number of countries have announced fresh restrictions to tackle the virus spread. **The risk sentiment somewhat improved by end of the month**, supported by better than expected economic data from the US and Eurozone. US GDP surged by 33.1% (annualized) in 3Q, while the Eurozone's four biggest economies grew in the range of 8.2%-18.2% in 3Q. At its recent meeting, the ECB maintained key rates and its bond-buying program unchanged, however, due to "rapidly loosing momentum" the ECB signalled more stimulus by end of the year. Nevertheless, the fresh lockdowns announced across Europe will take its toll on Eurozone economy. Notably, economists surveyed by the Financial Times slashed their economic forecasts for Eurozone to -2.3% in 4Q20.
- Last week of October saw earnings announcements from the leading tech giants. The combined sales of the four big tech companies – Amazon, Facebook, Google and Apple – increased 18% y/y in 3Q, beating the analyst expectations by 4%. However, market reaction was mixed, with Google's price increasing by 6%, while prices of Amazon, Facebook and Apple fell. On a positive note, 86% of S&P 500 companies beat market.
- Overall, US equities finished the month in red, with S&P 500 down 2.8%, however sharpest declines occurred in the last week of October, when the index was down 5.6% w/w. Technology heavy NASDAQ also came under pressure, finishing the month 2.3% lower compared to end-September (-5.5% w/w). European stocks, including STOXX 600 and FTSE 250 were also down.
- **The IMF published its periodical Global Financial Stability** Report on October 13. The IMF staff once again underlined that equity market "overvaluations are at historically high levels", particularly in the US, Euro area, Japan and China, while in the UK overvaluation has declined to acceptable levels since June. **The IMF also pointed out unprecedented policy support as the main reason behind the stock market recovery.** Declines in equity market valuations caused by sharp deterioration in corporate earnings outlooks in March 2020, were more than offset by various policy measures, which have lowered risk-free rates and reduced equity risk premiums. Furthermore, equity prices were supported by increased participation of retail investors in some countries i.e. "Robinhood Investors" who have flooded financial markets, particularly tech stocks. The IMF staff warned about possible sharp adjustments in asset prices if investors question the extent of continued policy support or if the recovery is delayed.

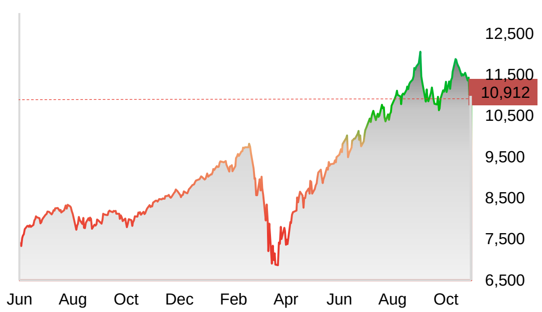
S&P 500



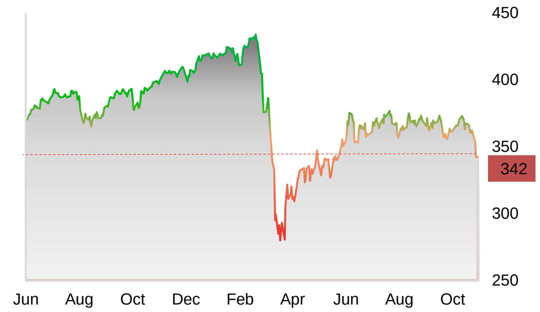
Dow Jones Industrial Average



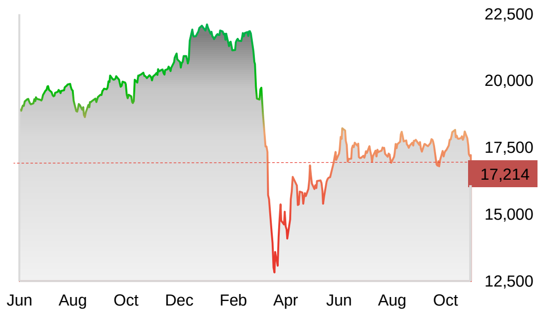
NASDAQ



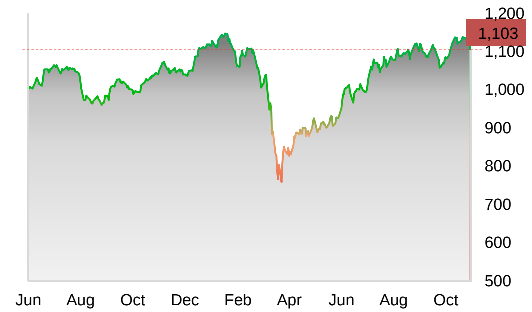
STOXX 600 Europe



FTSE 250



Emerging Markets Index



Source: Bloomberg
Note: Data as of 30 October 2020

- China reported strong third quarter economic data, with GDP growing by 4.9% y/y. Although this number is slightly lower than expectations, it still shows strong rebound in Chinese economy and proves that China manages to achieve a V-shaped recovery, better than any other major economy in the world. The IMF forecasts 1.9% growth in 2020 in China, before growing by astonishing 8.2% in 2021. China's renminbi continued strengthening in the second half of October, supported by fast economic recovery. China's Shanghai Composite Index closed slightly lower by end-month (-1.5% m/m)
- **In Japan,** Nikkei 225 index finished the month slightly below the end-September level, trading at 22,977 or -0.9% m/m.

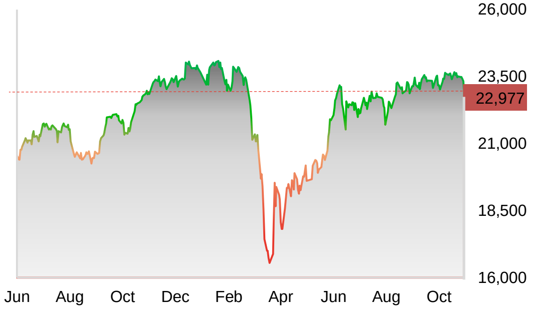
Commodities

- Growing COVID-19 cases and associated fears of second wave of lockdowns on the one hand and growing crude oil supply (US and Libya) on the other, negatively affected oil prices. Oil prices plunged as much as 5% to nearly 5-month low on October 28 and continued the fall, trading at US$ 35.8/barrel by end of month (WTI). Notably, International Energy Agency (IEA) reported that crude oil inventories in US increased by 4.3mn barrels in the week ended October 23. Notably, this level is c. 9% higher than the 5 year average for this time of year.
- Gold has been trading just below US$ 1,880/ounce by end of October. Strong dollar and better than expected economic recovery in US are the main reasons behind the Gold price weakness. However, growing fears of double-dip economic recovery might increase demand on safe assets, going forward.

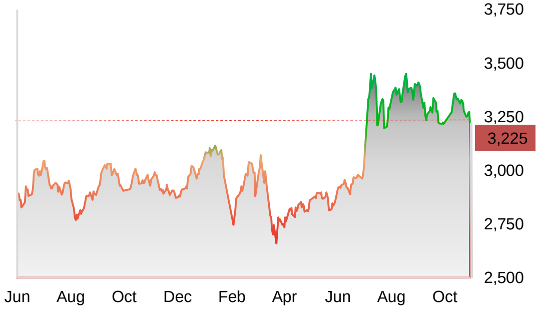
Volatility

- Cboe Volatility Index, VIX, the gauge of fear in S&P market, surged to 40.3 by 28 October, highest level since mid-June.

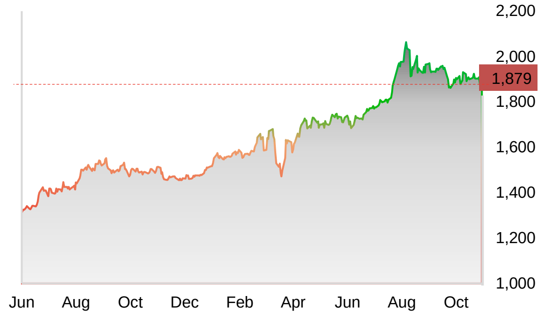
Nikkei 225



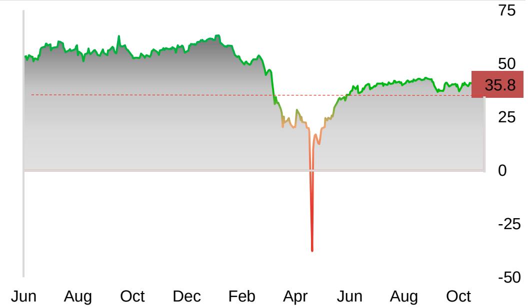
Shanghai Composite Index



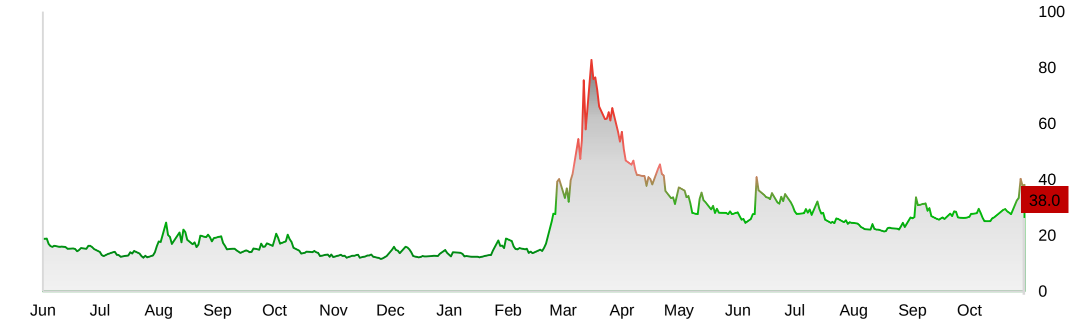
Gold



Oil (WTI)



Vix



Source: Bloomberg
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