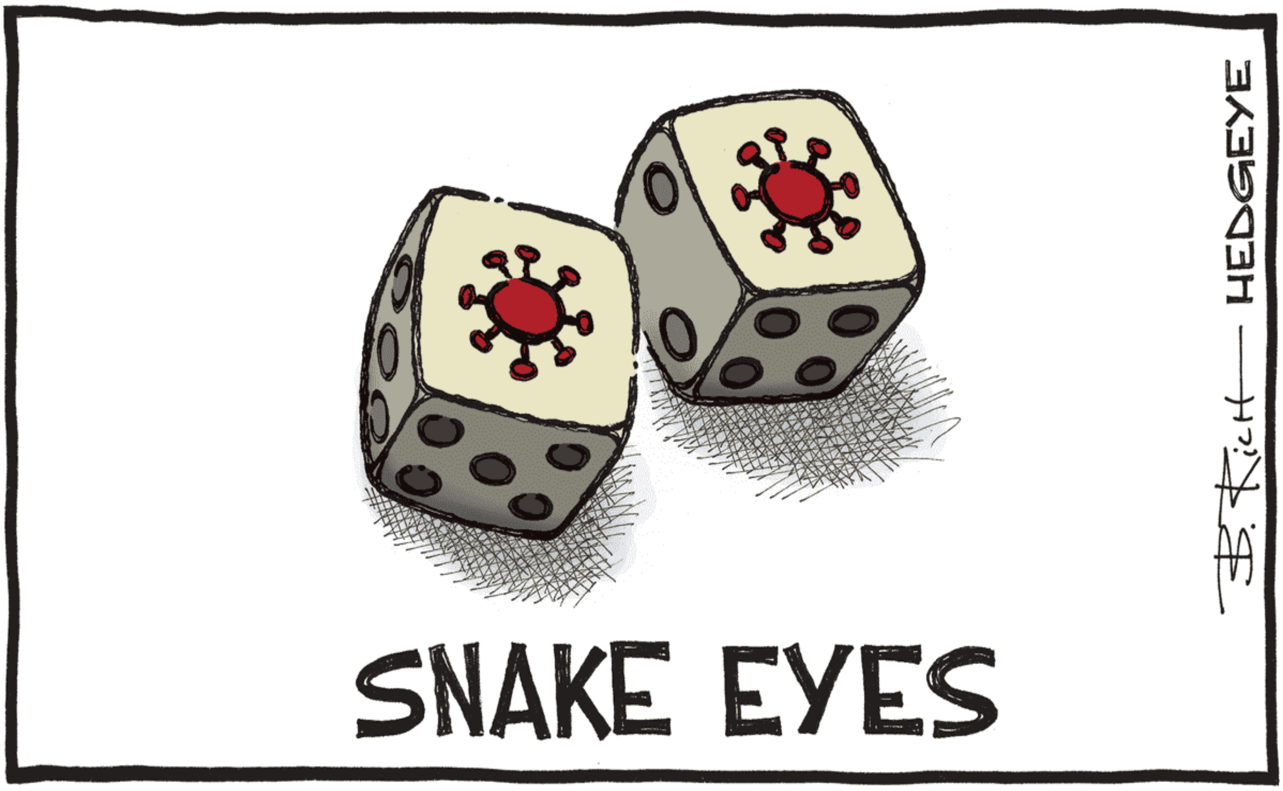
Market review November 2020



These last months, we have repeated several times our concern about a marked return of volatility, and October proved we were right. After starting the month with a bullish market, the equity indices entered in a correction phase to then end the month in the red. The profit taking represents for some indices a drop of almost 10% since the highest of the month. This was therefore logically followed by a fairly sharp increase in volatility which reached its highest levels since June, but remains a long way from March highs.

VIX Index

Source: Bloomberg.

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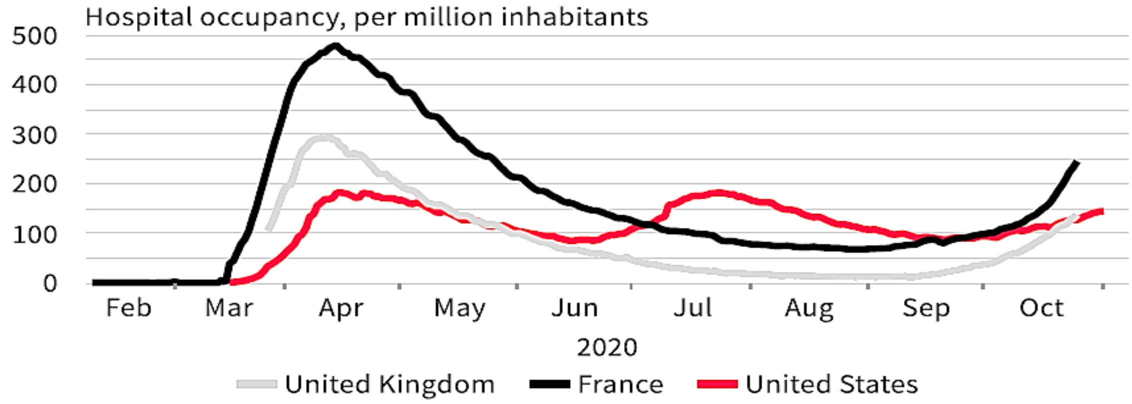
The trigger of this correction was mainly the new surge of Covid-19 contamination cases in Europe. The lack of agreement between Republicans and Democrats on a new Covid-19 relief package in the US did not help the markets either. The approach of the US presidential election explains this lack of result, which the markets were hoping for. These cases were already increasing during August and September, but this time they were followed by an increase of hospitalizations and deaths that urged European governments to once again restrict the freedom of their citizens through various curfews and lockdowns. This, of course, immediately led to downward growth revisions for the 4th quarter and less pleasing earnings prospects.

Chart of the month: Hospital occupancy increasing rapidly

Hospital occupancy per million inhabitants



Sources: SGPB, Macrobond, data as of 31/10/2020.

To this can be added the fear of a constitutional gap in the United States if Mr. Trump challenges the results of the presidential elections (which he already seems to be starting to do at the time of writing...).

All in all, the correction remains relatively contained for the time being, as investors are still betting on the "put" of massive liquidity injections that support risky assets. These injections (both from central banks and governments) could even increase in the coming weeks with the new wave of lockdowns that is sweeping across Europe.

Regarding the Chinese equities, they performed rather well in October. The health situation is generally stable, the economic recovery is going well with indicators improving month by month and the outlook for the end of the year is rather optimistic. In addition, the Communist Party Congress confirmed the will of the Chinese to be technologically independent from the USA, to focus more on their domestic market and to reduce their pollution. The CSI 300 index was up by 2.4% in local currency over the month of October, showing an annual performance of 14.6%.

The Chinese government let its currency (the yuan) appreciate these last months, whereas it was more inclined to devaluate it since the beginning of the trade war with the United States.

Overall, Asian emerging markets are performing relatively well this year and this should continue in 2021.

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Market trends at the end of October 2020

End of October	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	UK	Hong Kong
	Equities in Local Currencies							
Perf 1 Month	-3.14%	-2.77%	-7.37%	-4.36%	-3.94%	-5.89%	-4.92%	2.76%
Perf 3 Month	-0.52%	-0.04%	-6.81%	-3.96%	-6.18%	-4.19%	-5.43%	-1.98%
Perf YTD	-2.78%	1.21%	-21.01%	-23.15%	-32.43%	-9.70%	-26.05%	-14.48%

End of October	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
	Commodities					Currencies vs EUR		
Perf 1 Month	-11.01%	-8.52%	-0.37%	0.70%	0.63%	1.41%	0.90%	1.07%
Perf 3 Month	-11.12%	-13.49%	-4.91%	4.76%	1.13%	-2.26%	0.13%	-0.72%
Perf YTD	-41.39%	-43.24%	23.83%	8.82%	-3.73%	-0.13%	-5.94%	1.64%

End of October	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
	Bloomberg Indices Bonds Total returns							
Perf 1 Month	0.10%	-0.45%	0.84%	-1.33%	1.99%	-0.09%	0.07%	-0.12%
Perf 3 Month	-0.42%	-1.30%	1.32%	-1.94%	1.75%	-1.10%	-0.19%	-0.85%
Perf YTD	5.82%	6.32%	3.62%	10.04%	9.48%	5.68%	-0.51%	1.81%

Source : Bloomberg 31/10/20

In this letter we have, on several occasions, discussed the shape of the economic recovery after the March-April 2020 shutdown. We have talked about recovery scenarios in V, L, U or W and even recently we explained the details of the recovery in K.
This new wave of lockdowns strongly reduces the hopes of a V-shaped recovery, as shown by the latest economic growth revisions.
IMF (International Monetary Fund) economists expect a more moderate recovery in global growth in 2021 (+5.2% against +5.4% previously). The biggest downward revision is for the United States, which is expected to grow by 3.1% next year and not by 4.5% as previously expected.

Concerning the American elections, if Mr. Trump was to be defeated, then his management of the health crisis could be one of the main reasons of his failure. But it should also be noted that his gamble to "twist the arm" to his trade partners did not pay off either and it is also on this subject that he could lose part of his electorate. Proof of this is the American trade balance, which has continued to deteriorate over the months despite the Phase I agreement signed with China at the end of 2019.

US Trade Balance of Goods and Services

Source: Bloomberg.

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Let's keep in mind that if he finally had to win on the thread, this pressure should be maintained or even increase because in case of a second mandate, his political future will no longer be important to him knowing that he will not be able to be re-elected a third time, unless he ventures into an attempt to amend the Constitution.

On the side of commodities and bonds, the month was relatively calm. It should be noted, however, that the US 10-year appreciated by 0.68% to 0.87% in a scenario of reflation should Mr. Biden win the election. As we are writing, rates have dropped sharply because the blue wave (a Democratic election sweep of the White House and Senate) that some were betting on does not seem to be happening.
As for gold, it has remained very stable while oil (-11%) is suffering the full force of the second wave of lockdowns.

An end-of-year rally will be possible as soon as the name of the future American president is known and if, as the market expects, a vaccine against Coronavirus is quickly approved by the FDA. We should receive these answers during the month of November.
We wish you a good "re-lockdown".
Take care of yourself and your loved ones.

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