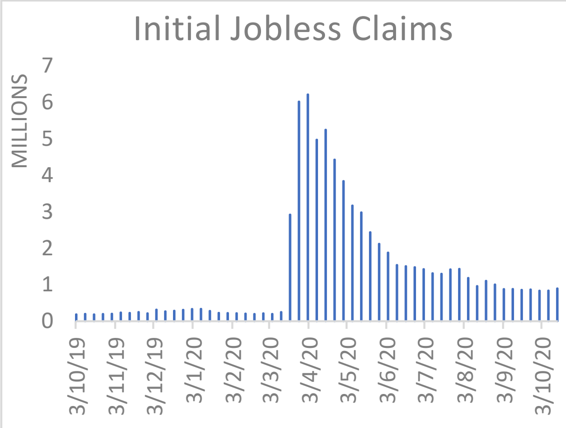
BLACKMOUNT

Bi-Weekly Market Report

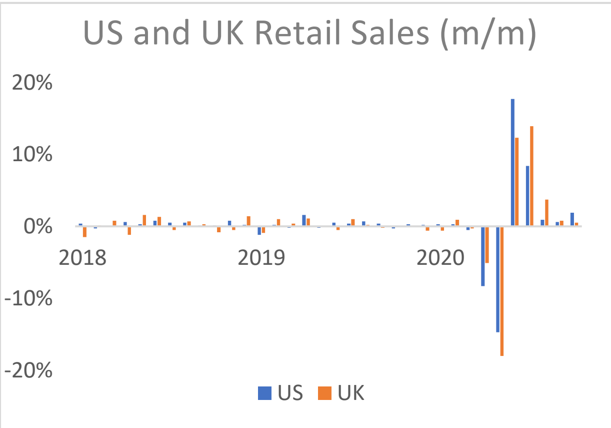
19th October – 23rd October 2020

Market Commentary & Outlook

The prospects of a relief package being passed before the election seemed to dim further, while coronavirus worries also seemed to dampen sentiment during much of the week. US President Trump said on Thursday he would agree to go higher than the $1.8tn that the White House has offered in coronavirus stimulus funding to strike a deal with the House Democrats, who are seeking $2.2tn. Trump said that is a chance of a getting a stimulus before the elections, though hopes for a deal have dimmed. Additionally, investors were worried by the continued rise in cases in the U.S. and Europe, amid pauses in trials of both J&J's vaccine and Eli Lilly's antibody treatment due to potential adverse reactions.



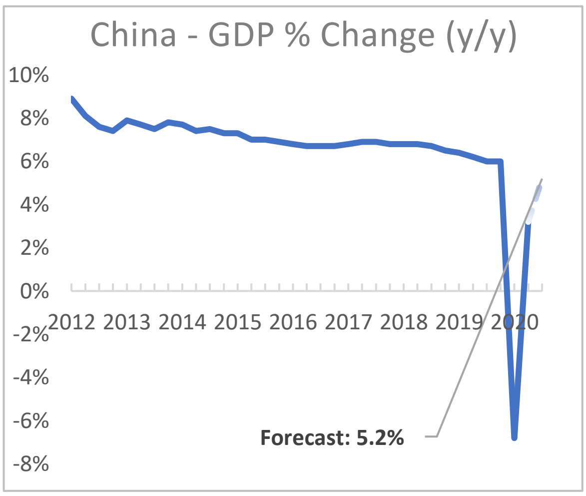
Last week's economic data were mixed. Core retail sales rose 1.4% in September, reversing a downwardly revised 0.3% drop in August. The University of Michigan's preliminary gauge of October **consumer sentiment** also surprised on the upside. However, **weekly jobless claims** disappointed, rising to 898,000, a two-month high. Also, **manufacturing production** unexpectedly dropped 0.3% in September, suggesting that manufacturing's recovery from the Covid-19 pandemic was slowing heading into Q4. **U.S. consumer prices** rose for a fourth straight month in September though the pace has slowed. CPI increased 0.2% last month after gaining 0.4% in August. Coronavirus spending pushed **US fiscal year deficit to record $3.132tn. more than triple the 2019 shortfall.**



In Europe, central governments imposed stricter measures to contain the accelerating spread of the coronavirus and prevent a second round of economically damaging national lockdowns. France imposed a night-time curfew in Paris and eight other cities, while the UK implemented a three-tiered system of localized lockdowns across England**. PM Boris Johnson said UK should get ready for a no-deal exit from the EU on December 31**, in response to Brussels' demands for more unilateral concessions. However, Johnson kept the door open for more talks, saying he would listen to proposals based on a "fundamental change of approach."

On the week ahead, election fever is heating up, with Joe Biden, maintaining his strong lead over Donald Trump in the latest national polls. The opinion polls will be watched more closely in the run up to the November 3 vote as it is looking increasingly likely that the outcome of the fiscal stimulus bill is tied to the outcome of the election. **The flash PMI reports in US, Eurozone, and UK are due on Friday.** In Europe, manufacturing PMI is expected to follow the services PMI in edging lower in October. US will also release building permits, housing starts, and existing home sales.

In China, exports last month topped market forecasts and increased for the fourth straight month, jumping 9.9% y/y in U.S. dollar terms. Imports, which have so far lagged exports in the recovery, soared in September, offering evidence of a pickup in domestic demand. IMF raised its full-year GDP forecast or China to 1.9%, up from its June forecast of 1.0%, in its October World Economic Outlook. **China's economic output is projected to have expanded by 3.2% in Q3, taking the y/y rate to 5.2%**



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Equities

U.S. large-cap benchmarks barely posted a third straight week of gains, while small-cap shares lagged marginally after a recent streak of outperformance. Within the S&P 500 Index, industrials and utilities shares outperformed, while energy financials posted solid losses. The real estate sector was also particularly weak.

Exhibit 1: World Stock Market Returns			
Index	**Price**	**WtD**	**YtD**
US S&P 500	3,483.81	0.19%	7.83%
MSCI Europe ex-UK	147.90	-0.52%	-7.45%
UK FTSE All-Share	3,325.67	-1.56%	-20.75%
Japan TOPIX	1,617.69	-1.80%	-6.02%
MSCI Asia ex-Japan	580.57	0.10%	5.04%
MSCI EM	1,124.08	0.14%	0.85%

Source: Barchart.com

On the corporate front, the US earning season kicked off, having a solid start with 86% positive surprises on EPS and 74% on sales, but it still marks the dispersion between the winners and the losers from the Covid-19. JPMorgan, Morgan Stanley, Goldman Sachs and Citigroup beat analysts' profit expectations as they set aside smaller loan-loss provisions. Bank of America and Wells Fargo disappointed as the companies struggled with the impact of lower interest rates. Delta Airlines and United Airlines, are with no surprise among the losers with negative eranings surprises.

Corporate earnings have taken a significant hit, declining 35% in Q2. Earnings are projected to improve in the latter part of 2020 and then rebound sharply in 2021. This severe recession was short-lived, which facilitated corporate profitability hold up better than expected. In addition, earnings for the two most heavily weighted sectors – technology and health care – remained robust.

Exhibit 2: US Sectors			
Sector	**Price**	**WtD**	**YtD**
Communication Services	60.78	0.75%	13.33%
Consumer Discretionary	152.85	-0.35%	21.87%
Consumer Staples	66.17	0.65%	5.07%
Energy	30.19	-1.95%	-49.72%
Financials	24.99	-0.95%	-18.81%
Healthcare	107.92	-0.41%	5.95%
Industrials	81.6	1.10%	0.16%
Materials	66.27	-0.36%	7.90%
Real Estate	36.11	-2.22%	-6.62%
Technology	121.12	0.78%	32.13%
Utilities	64	0.82%	-0.96%

Source: Barchart.com, Select Sector SPDR Funds

European stocks fell for the week, amid a resurgence in coronavirus cases, and Brexit related uncertainty. **The pan-European STOXX Europe 600 Index ended 0.78% lower**, with major indexes also posting losses. Germany's DAX Index fell 1.09%, France's CAC-40 Index lost 0.22%, and Italy's FTSE MIB Index slid 1.05%. The UK's FTSE 100 Index also posted solid losses of 1.61%. European stock markets rallied on Friday, recouping some of their losses amid strong corporate earnings. Daimler and luxury group LVMH, among others, posted a strong quarterly update.

In China, stocks ended higher for the week, lifted by fresh policy support and upbeat trade data showing China's imports grew at their fastest pace this year in September, that pointed to an economic recovery from the COVID-19 fallout, despite a slight easing on Friday after heavy selling in consumer and healthcare stocks. For the week, the CSI300 gained 1.9%, posting its third consecutive weekly gain, while the SSE Composite Index gained 1.6%.

Exhibit 3: US Top 5 Risers and Fallers	
Stock	**Weekly Performance**
Autodesk Inc.	9.46%
International Paper Company	9.07%
Westrock Co.	8.41%
Concho Resources Inc.	7.93%
BlackRock Inc.	7.49%
Stock	**Weekly Performance**
Vertex Pharmaceuticals Inc.	-19.21%
Royal Caribbean Cruises Ltd.	-17.25%
Norwegian Cruise Line Holdings	-13.51%
Devon Energy Corporation	-11.12%
Carnival Corp.	-10.26%

Source: http://www.sectorspdr.com/

In Japan, stocks posted solid losses for the week. The Nikkei 225 Stock Average slid 0.9%, while the large-cap TOPIX Index and the TOPIX Small Index, broader measures of Japanese stock market performance, also recorded solid losses. "Even though worries over fresh waves of coronavirus infections in Europe are weighing on the market, investors took a step aside from active selling ahead of a full-blown corporate earnings report season," Mizuho Securities said in a commentary.

Fixed Income

Exhibit 1: Fixed income Government Bond Returns			
Index	**Current Price**	**WtD**	**YtD**
Global	676.90	0.14%	6.53%
US	2,529.47	0.24%	8.39%
UK	317.84	1.46%	8.86%
Japan	141.21	0.10%	-0.81%
Germany	261.83	0.75%	3.52%
Italy	315.63	0.53%	6.87%
Spain	310.74	0.45%	3.83%
France	284.73	0.67%	4.80%

Source: Bloomberg.com. All indices are Bloomberg Barclays benchmark government indices. All indices are total return in local currency, except for global, which is in US dollars.

Intermediate- and long-term Treasury yields ended slighlty lower for the week. The U.S. yield curve has further steepened**,** as the gap between yields on short-term bonds and long-term bonds tends to increase when investors expect stronger economic growth and rising inflation, as anticipated under a Biden administration.

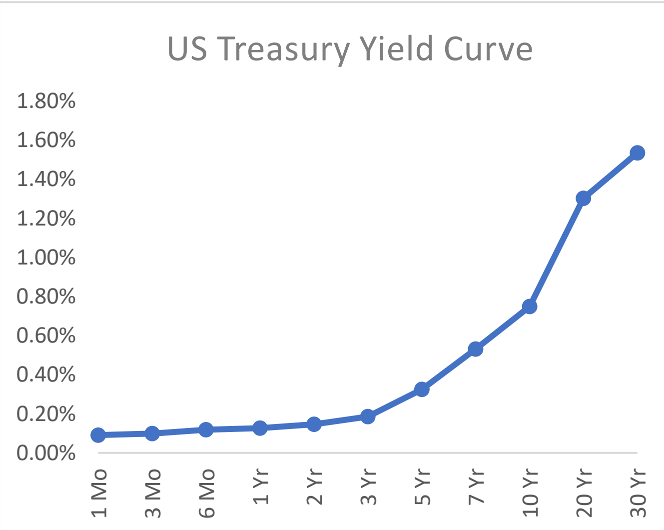
In the investment-grade corporate market, primary issuance levels contracted throughout the week and finished well below expectations. Trading volumes were also light in **the high yield market**, as macroeconomic concerns appeared to keep many investors on the sidelines. According to the Q3 survey from the International Association of Credit Portfolio Managers, most managers believe credit defaults will rise in the coming months and credit spreads will widen over the next three months in all regions and categories.

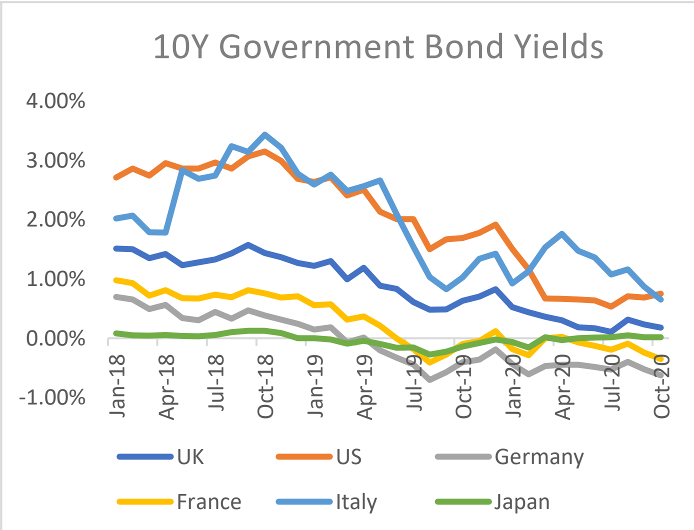
Overall, in response to the Fed's injection of liquidity in the credit market and the widespread availability of low-cost financing, **U.S. corporations issued a total of $1.38 trillion in investment-grade and high-yield debt in the first nine months of 2020**, representing a 82.7% increase in debt issuance over the same period last year. However, the market has slowed down dramatically since September, according to bankers. That could support a further rally in credit if investors keep putting money into the market.

Exhibit 2: Fixed Income Sector Returns			
Index	**Current Price**	**WtD**	**YtD**
US Treasuries	2,529.47	0.24%	8.39%
Euro Government	264.24	0.62%	4.85%
Global Inflation Linked	385.72	0.61%	8.33%
Global Investment Grade	296.71	0.17%	6.53%
Emerging Markets Debt	898.45	0.14%	1.88%
US High Yield	471.60	0.00%	0.98%
Euro High Yield	300.32	-0.07%	-1.62%

Source: Bloomberg.com. Global IL: Barclays Global Inflation-Linked; Euro Gov.: Barclays Euro Aggregate Government; US Treas: Barclays US Aggregate Government - Treasury; Global IG: Barclays Global Aggregate - Corporates; US HY: ICE BofA US HY Constrained; Euro HY: ICE BofA Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBIG. All indices are total return in local currency, except for EM and global indices, which are in US dollars

Euro zone government bond yields dipped last week, as rising coronavirus cases in Europe raised concerns about further lockdowns. German government bond yields fell to their lowest since March and the risk premium on Italian bonds (BTP) saw its biggest daily jump since April. The BTP-Bund spread widened by 8bp over the week to 130bp. **This week was rather busy for sovereign issuers.** Italy sold €7.5bn worth of bonds, while placed a new three-year bond with a -0.14% gross yield, the lowest level ever. France issued a total of €8.24bn, breaking down into €7.24bn in medium-term OATs and €1bn in indexed OATi. Austria (€2.5bn), Spain (€2.325bn), Netherlands (€2bn), Germany (€1bn), and Portugal (€1bn) also issued bonds. Portugal obtained a negative average yield for the first time for paper with a maturity of more than 6 years.





FX & Commodities

The U.S. dollar index posted solid gains, amid intensified caution over a global surge in coronavirus cases and fading prospects for a U.S. stimulus package before the Nov. 3 election.

EUR/USD slid for the week amid a stronger dollar, but also uncertainty regarding European growth following the curfew announcements in many European countries. The pair fell again below of 1.17 but managed to return above 1.1710. The macro-focus this week will be on Brexit and the October PMIs, where the services index is expected to fall again.

GBP/USD retreated for the week with increased volatility, amid erratic news flow on the negotiations between UK and the EU. **While the outlook for GBP does not seem negative for this week**, the GBP pay off will be disproportionate, skewed to greater losses should the trade negotiations fail against limited gains should a soft trade deal be agreed.

FX	WEEKLY CLOSE	WtD	YtD
DOLLAR INDEX	93.72	0.71%	-2.77%
EURUSD	1.1713	-0.93%	4.46%
GBPUSD	1.2911	-0.89%	-2.61%
EURGBP	0.9062	-0.02%	7.12%
USDJPY	105.40	-0.20%	-2.95%
EURCHF	1.0707	-0.40%	-1.37%
USDCHF	0.9142	0.55%	-5.42%
AUDUSD	0.7078	-2.25%	0.81%
USDCAD	1.3180	0.50%	1.46%
USDTRY	7.9336	1.01%	33.31%
USDRUB	77.7890	1.38%	25.57%
USDCNY	6.6968	0.05%	-3.83%

USD/JPY continued to trade in very tight ranges and certainly is trading like a non-correlated pair with the global recovery story (e.g. no correlation with the US 10-30 year curve – a key reflation proxy). The pair has recently fell amid negative real US yields, and USD/JPY being seen as the key vehicle to hedge US election risk. The pair could make a move towards 104 again. **AUD/USD sold off last week** amid central bank's very dovish comments regarding a cut in the policy rate, and also more asset purchases at the long end of the curve

Commodities & Commodity Indices	WEEKLY CLOSE	WtD	YtD
S&P GSCI Total Return CME	1,771.65	0.22%	-31.65%
Bloomberg Commodity Index	73.38	0.18%	-9.28%
WTI Crude Oil Futures	40.88	0.69%	-33.05%
Brent Crude Oil Futures	42.93	0.19%	-34.95%
US Natural Gas ETF (UNG)	12.28	-0.81%	-27.16%
Gold Spot	1,898.30	-1.62%	25.11%
Silver Spot	24.117	-4.00%	35.09%
LME Copper 3Mo	6,740.00	-0.34%	9.17%
ETFS Cocoa	2.52	-3.04%	-1.72%
ETFS Coffee	0.721	-3.03%	-23.55%
ETFS Sugar	7.053	1.22%	1.00%
ETFS Corn	0.710	1.75%	-5.09%
ETFS Soybeans	18.347	-1.58%	5.44%
ETFS Wheat	0.715	5.27%	8.11%

Oil prices ended slightly higher for the week, partly due to assurances from OPEC+ that it remains committed to production cuts. OPEC and their allies, seem "to have comforted markets that they are leading the oil market to balance

Several fundamental factors have come together in recent weeks**, with both the supply and demand side of the market weakening.** On the demand front, the biggest issues remain the weak demand recovery from Covid-19 lockdowns and the collapse in the jet fuel demand given a deteriorated aviation sector. **All of the major trading houses expect weak demand in the next few months.**

Overall, the market may have set a bottom. However, we should not expect to see much upside activity with the current demand and supply outlook. **Oil prices will likely remain low in the coming weeks,** as OPEC are due to add approximately 1.9mn b/d back to the market at the end of December.

Gold and silver prices logged their first weekly decline in three weeks, as overall strength in U.S. currency weighed on dollar-pegged metals. Gold has been in a multi-week consolidation of the substantial run up in price since it broke above \$1,780-\$1,800 in early July. Gold and silver prices might face headwinds if the U.S. dollar can extend its rise. Another downside risk that could undermine precious metals includes the potential for a widespread market sell-off earmarked by a 'dash to cash.' Additionally, gold continues to show an unstable correlation with equities.

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