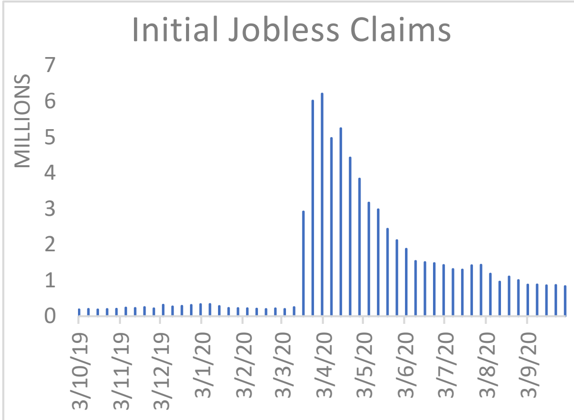
BLACKMOUNT

Bi-Weekly Market Report

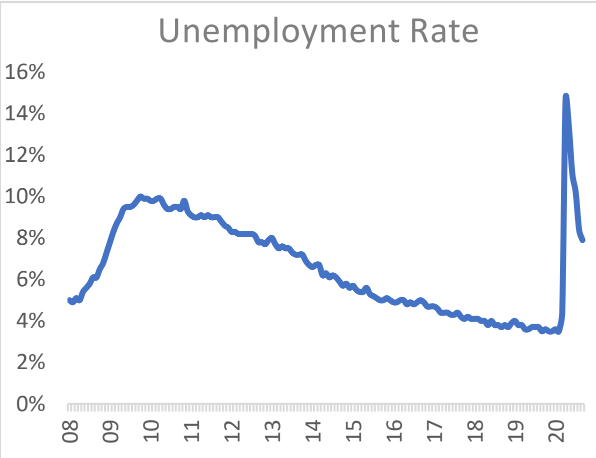
5th October – 9th October 2020

Market Commentary & Outlook

Market sentiment remained very juxtaposed with an average positive news flow in US and Europe, but a "narrative" focused on uncertainties: US fiscal stimulus and consequences of the 2nd wave of Covid and possible double dip. The political environment seemed to play a large role in driving sentiment over the week. The Democratic-controlled US House of Representatives has approved a new fiscal stimulus package worth $2.2tn, but the move failed to break the political deadlock over additional relief for the American economy. President Donald Trump's announcement on Twitter Thursday night that he and his wife had contracted COVID-19 added to the uncertainty in US.



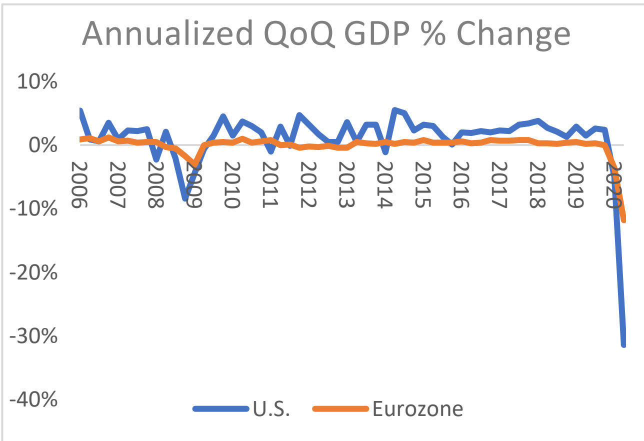
In other major news, **nonfarm payrolls rose by a lower than expected 661,000 in September and the unemployment rate was 7.9%.** Economists had been expecting a payrolls gain of 800,000 and the unemployment rate to fall to 8.2%. The payrolls miss was due mostly to a drop in government hiring. Average hourly earnings were little changed over the month but still about 4.6% higher than a year ago**. Q2 GDP was revised higher**, as it fell 31.4%, slightly changed from the 31.7% drop estimated one month ago. Economists believe the economy will expand at an annual rate of 30% in Q3 as businesses have re-opened. **Weekly jobless claims were more encouraging**, with initial jobless claims reaching a post-pandemic low of 837,000.



In Europe, a number of European countries announced more targeted actions to restrain the resurgence of coronavirus cases. **Eurozone CPI** tumbled for a second straight month in September, with the y/y inflation rate hitting a four-year low of -0.3%. Tumbling oil prices and weaker prices for non-industrial goods were key deflationary factors.

The Times newspaper reported that undisclosed officials said that EU and UK negotiators had found common ground for a trade deal. EU sources cited by Reuters stated that areas of conflict remained and that the talks would continue until an October 15–16 EU leaders' meeting. **As negotiators met, UK members of Parliament approved a draft law to create an internal market once the post-Brexit transition ends in December.** This bill contains clauses that would defy sections of the withdrawal accord agreed to, prompting the European Commission to take legal action against the UK for infringing on these terms.

On the week ahead, the uncertainty on the political (US elections) and macro side is not going to decrease in the short-term. The two potential catalysts for a very short-term rebound remain a quick US fiscal deal, which seems unlikely, and any good news on the vaccine/treatment side. **The RBA will also be in focus, as it holds a policy meeting, and is expected to announce a rate cut.**



In China, manufacturing activity highlighted the country's strong recovery, with September's PMI coming in at 51.5, in expansion territory, supported by new export orders. Caixin manufacturing PMI came in at 53, almost unchanged for the month. Services PMI jumped to 55.9, its strongest level since November 2013.

Equities

U.S. major indexes finished higher for the week, on hopes that Congress will reach a deal on another coronavirus-relief bill. **Equities finished a choppy September down 4%,** as the six-month rally from the March low took a breather. Most sectors within the S&P 500 Index posted solid positive returns, with the exception of energy stocks, amid a sell off in oil prices. **The energy sector remains the worst performer for the year-to-date, down over 50%.**

Exhibit 1: World Stock Market Returns			
Index	**Price**	**WtD**	**YtD**
US S&P 500	3,348.44	1.52%	3.64%
MSCI Europe ex-UK	145.28	1.85%	-9.09%
UK FTSE All-Share	3,301.34	1.21%	-21.33%
Japan TOPIX	1,609.22	-1.53%	-6.51%
MSCI Asia ex-Japan	559.53	2.18%	1.24%
MSCI EM	1,081.71	2.13%	-2.96%

Source: Barchart.com

The strength of the stock rally over the last six months is partially attributed to the aggressive fiscal stimulus in the U.S. and other developed economies. To date the federal government has added almost $4 trillion in new spending to support the economy emerge from the worse economic recession since the Great Depression.

The roller coaster ride in equity markets over the past months has been led in large part by a handful of technology stocks. While this dynamic has led U.S. markets to all-time highs and valuations to extreme levels, the fundamental challenges are not the same today as they used to be prior to the tech bubble. **Even with the pandemic, technology earnings rose 0.5% y/y in 2Q20**, while overall S&P 500 earnings shrank by nearly 27% on a pro-forma basis. In contrast, in 2000 the sector contributed almost 16% to earnings, yet earnings contracted severely through H1 of 2001 before turning negative by Q3.

Exhibit 2: US Sectors			
Sector	**Price**	**WtD**	**YtD**
Communication Services	59.06	0.92%	10.12%
Consumer Discretionary	148.27	3.02%	18.22%
Consumer Staples	64.1	1.68%	1.78%
Energy	29.31	-2.88%	-51.18%
Financials	24.3	3.45%	-21.05%
Healthcare	104.16	1.11%	2.26%
Industrials	77.61	1.46%	-4.74%
Materials	63.3	1.34%	3.06%
Real Estate	36.43	5.08%	-5.79%
Technology	114.94	0.88%	25.38%
Utilities	60.69	3.35%	-6.08%

Source: Barchart.com, Select Sector SPDR Funds

European stocks advanced for the week, with investors scooping up beaten-down stocks, and overcoming the resurgence in the number of coronavirus cases. The pan-European STOXX Europe 600 Index ended 2.02% higher, with major indexes also posting gains. Germany's DAX Index gained 1.76%, France's CAC-40 Index jumped 2.01%, and Italy's FTSE MIB Index rose 1.96%. The UK's FTSE 100 Index also posted solid gains of 1.78%. Financials led the way, reversing a sell-off last week that pushed the banking index to its lowest level since at least the late 1990s.

In China, stocks rose marginally in a holiday-shortened week, supported by several economic readings showing that the recovery was on track, but they ended September with their biggest monthly loss since May 2019. China's consumer stocks outperformed ahead of Golden Week holiday, as investors expect strong consumption during the break, supported by a number of measures deployed by Beijing to lift domestic consumption.

In Japan, stocks posted solid losses for the week. The Nikkei 225 Stock Average slid 0.75%, while the large-cap TOPIX Index and the TOPIX Small Index, broader measures of Japanese stock market performance, also posted solid losses. The Tokyo Stock Exchange halted stock trading on all of Japan's exchanges for the full day on Thursday, October 1. A technical glitch, resulting from a system failure to switch to backup mode, caused a transmission outage.

Exhibit 3: US Top 5 Risers and Fallers	
Stock	**Weekly Performance**
Paycom Software Inc	16.86%
Gap Inc.	12.65%
Discover Financial Services	12.54%
DXC Technology Corporation	12.50%
Duke Energy Corporation	11.05%
Stock	**Weekly Performance**
Halliburton Company	-8.57%
National Oilwell Varco Inc.	-8.52%
Valero Energy Corporation	-7.26%
EOG Resources, Inc.	-7.05%
Hess Corporation	-6.84%

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

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Fixed Income

Exhibit 1: Fixed income Government Bond Returns			
Index	**Current Price**	**WtD**	**YtD**
Global	679.12	0.83%	6.88%
US	2,537.14	-0.17%	8.72%
UK	317.30	0.07%	8.68%
Japan	141.31	0.08%	-0.74%
Germany	258.90	0.06%	2.36%
Italy	308.11	0.52%	4.32%
Spain	306.64	0.20%	2.46%
France	281.53	0.34%	3.62%

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 rose through most of the week, led by renewed hopes for a stimulus deal**.** Credit spreads widened for most segments (expect $HY).

In the investment-grade corporate market, the primary calendar was active early in the week amid upbeat economic sentiment. However, the volume of deals coming to the market later diminished, and total issuance for the week was well below expectations.

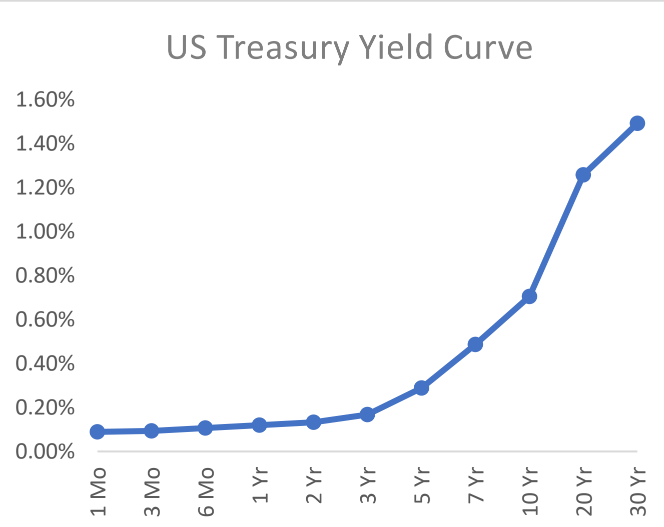
Appetite for high yield corporate market was once again confirmed last week amid strong equity gains, M&A activity, and strong demand from exchange-traded funds. Although the volume of new deals was somewhat muted, September was the second-busiest month year-to-date for issuance, with almost $43bn in HY issues in dollars being priced. Credit spreads narrowed across all rating tiers, and below investment-grade funds industrywide reported negative flows.

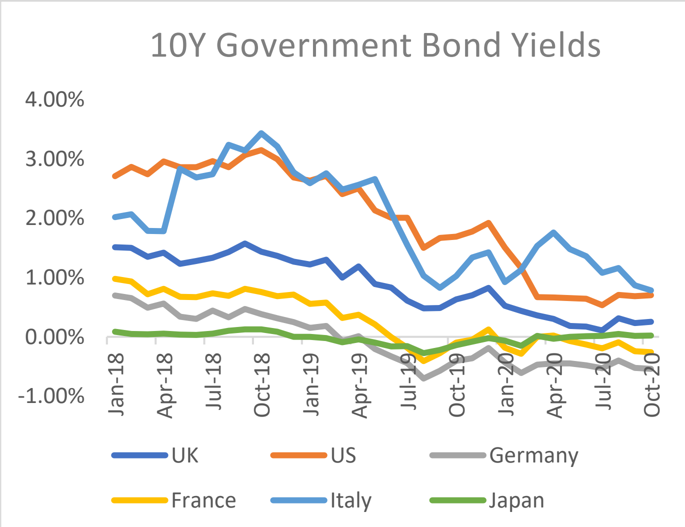
Exhibit 2: Fixed Income Sector Returns			
Index	**Current Price**	**WtD**	**YtD**
US Treasuries	2,535.64	-0.31%	8.65%
Euro Government	261.92	0.22%	3.93%
Global Inflation Linked	382.23	0.85%	7.35%
Global Investment Grade	295.14	0.47%	5.96%
Emerging Markets Debt	885.41	0.22%	0.41%
US High Yield	465.61	0.88%	-0.30%
Euro High Yield	298.19	0.72%	-2.31%

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

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.

Euro zone government bond yields dipped, with those on Italian BTPs hitting a record low amid persistent deflation in the euro area. Moreover, German bonds look set to face a more volatile end to the year after seeing the narrowest quarterly trading range ever. **An increasing shortage of bunds amid slowing government debt sales and continued purchases by the ECB could drive benchmark yields below recent ranges in Q4, according to Citigroup.** Strategists at the bank expect the German 10-year yield falling to minus 0.6%, compared with the Q3 average of minus 0.47%. Euro-area bond sales are set to decelerate next week with Germany, Austria and Ireland offering securities totalling six billion euros, which would be the lowest weekly gross issuance so far this year, according to Commerzbank.





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FX & Commodities

The U.S. dollar index ended lower for the week, as hopes for U.S. fiscal stimulus cheered investors and prompted them to seek higher-yielding but riskier currencies.

EUR/USD ended higher for the week. After testing a low of 1.1620, the pair returned above 1.1710 in reaction to the weak U.S. dollar. The latest rally will likely struggle at 1.1755/67 and remain contained by the short-term downtrend at 1.1800. We could expect renewed weakness towards 1.1523, the 38.2% retracement and then the March high at 1.1495.

GBP/USD advanced for the week with increased volatility, amid a report that EU and UK negotiators had found common ground for a trade deal. **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	93.81	-0.81%	-2.68%
EURUSD	1.1716	0.74%	4.49%
GBPUSD	1.2929	1.47%	-2.48%
EURGBP	0.9053	-0.75%	7.02%
USDJPY	105.26	-0.31%	-3.08%
EURCHF	1.0779	-0.14%	-0.71%
USDCHF	0.9197	-0.84%	-4.85%
AUDUSD	0.7161	1.87%	2.00%
USDCAD	1.3303	-0.61%	2.41%
USDTRY	7.7682	1.41%	30.53%
USDRUB	78.1630	0.08%	26.18%
USDCNY	6.7898	-0.49%	-2.49%

USD/JPY retreated last week as Trump's positive COVID test sparked haven buying on Friday. Other key reasons for the fall are 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. Asian currencies were up for Q3, driven by the CNY (4%), which returned to the May 2019 level. **Turkish lira hit a record low last week**, amid clashes in Nagorno-Karabakh since late September.

Oil prices plummeted for the week, with prices logging their lowest settlement since mid-September, as concerns about rising cases of COVID-19 worldwide fed expectations for a slowdown in energy demand.

Commodities & Commodity Indices	WEEKLY CLOSE	WtD	YtD
S&P GSCI Total Return CME	1,664.18	-3.09%	-35.79%
Bloomberg Commodity Index	69.8	-1.26%	-13.71%
WTI Crude Oil Futures	37.05	-8.09%	-39.32%
Brent Crude Oil Futures	39.27	-6.37%	-40.50%
US Natural Gas ETF (UNG)	11.07	-12.42%	-34.34%
Gold Spot	1,898.65	2.06%	25.14%
Silver Spot	23.693	3.62%	32.72%
LME Copper 3Mo	6,553.00	0.12%	6.14%
ETFS Cocoa	2.6655	-3.09%	3.96%
ETFS Coffee	0.729	-3.06%	-22.65%
ETFS Sugar	6.700	1.21%	-4.05%
ETFS Corn	0.671	3.95%	-10.31%
ETFS Soybeans	17.854	1.80%	2.61%
ETFS Wheat	0.656	5.30%	-0.85%

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.** On the supply front, we saw an increase in barrels from Libya, affecting the market overall, as the production has recovered faster than anticipated. Russia is also producing above their OPEC quota, while Iraq is not willing to proceed with “compensation cuts”.

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 could still move toward $45/bbl until the end of the year.**

Gold and silver prices advanced for the week, with analysts attributing the advance to the weak economic data. 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.’

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