



CIO OFFICE MORNING MARKET WRAP – Wednesday October 7th, 2020. ALSO AVAILABLE ON ALEXA.

Pre-election time is indeed living up to its claim of being a volatile period for equities. Or it may simply be the unforeseeable Mr Trump, who advised his representatives to stop negotiations on fiscal stimulus until after the elections and blissfully sent the S&P500 tumbling by 1% in a matter of minutes. Some Robin-hood short-term traders who were long the index must have wished that he was hospitalized for longer.

Trump's decision definitely highlights that himself and Mr Powell remain on significantly different wavelengths, with the latter warning just a few hours earlier in a virtual conference that "risks of overdoing it" are smaller than too little stimulus. And what about the "unnecessary hardship for households and businesses" in the case of "too little support" mentioned by the Fed chair in the same conference? A debate between Mr Trump and Mr Powell would at this juncture be no less interesting than a second one between the two running presidential candidates, just for the sake of clarifying such clashing views on the degree of urgency of virus relief measures.

Traders will consider unwinding positions that had been initiated under the expectation that a large Biden lead in the polls would portend more public expenditure. Indeed, Treasury yields tumbled, crude oil retreated and the US dollar gained on president Trump's words. The knee-jerk market reaction signifies that in the post-pandemic world monetary and fiscal policy will have to work together for a sustainable recovery to be achieved and all the more so for elusive inflation to stabilize above the Fed's target.

And if investors are so skittish about the mini fiscal cliff Republicans and Democrats currently can find no agreement on, they will have to shudder at what would happen if all relief measures set to expire next year were allowed to. In this respect the best antidote against a maxi fiscal drag in 2021 would be a clean Democratic victory in both houses of Congress at the November elections. Although Mr Biden is clearly leading in the polls with a margin well above that enjoyed by Hillary Clinton in 2016, November VIX futures above 30 indicate that equity investors continue to see the strong possibility of a contested election outcome. Irrespective of whom will be elected president, some trouble might be looming for big tech. After a yearlong investigation concluding that the likes of Amazon, Google, Apple and Facebook abused their dominant position, a House panel proposed antitrust reforms aimed at curbing their power which would entail their break up if approved by Congress. The virus continues to make for discomfoting headlines.

In Italy the lower house did not vote on new measures to fight the pandemic being many lawmakers quarantined. In the German capital social-distancing measures will be tightened further, with public gatherings prohibited and bars and restaurants closed after 11 pm from Saturday. Increasing efforts are being directed towards a "bridge" to a vaccine. A few days ago a Regeneron antibody cocktail showed that it could be a promising treatment for patients outside of the hospital, by reducing symptoms and virus levels in the bloodstream. Hopefully the Chinese believe in the quote that many enemies bring much honour, since according to a latest Pew survey of 14 countries negative perceptions of China have reached record levels in the US and other major economies. Also, the US and 38 allies criticized Beijing at the UN over human rights violations against the Uighur minority and in Hong Kong.

Stay safe.

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