



## **CIO OFFICE MORNING MARKET WRAP – Wednesday September 9th, 2020. ALSO AVAILABLE ON ALEXA.**

It is a “healthy” correction. This is the refrain heard from most commentators regarding the latest equity market losses. Although the buy-the-dip crowd was hoping for a prompt recovery in prices following the long Labour Day weekend, that failed to materialize. The S&P 500 fell 2.8% led by the Nasdaq, down 4.1%. Tesla, the speculators' darling which at a point on Thursday became the ninth highest-valued US-listed company, had its worst one-day loss ever, plunging 21%. Asian stocks have opened in the red this morning, European futures are retreating, while US futures are off their session's lows as of the time of writing.

Yesterday saw a true flight to quality, as US 10-year Treasury yields retreated by almost 4bps and the dollar gained 0.8% to reach a three-week high. With bad news coming in clusters, Astra Zeneca paused the phase 3 testing of the Covid-19 vaccine it is developing with Oxford University after a serious adverse reaction. Tests should be restarted after review of what happened. For the pullback to be healthy, we should see some rotation from overbought sectors into the lagging ones. It is this sort of passing the baton that sustains long market trends.

Indeed, since the March lows we have not had much of that, because investors have continued to aggressively bid a limited number of stocks higher, rather than the broader index. So much so that number crunchers have calculated that in the US market Big Tech, in other words the S&P Tech plus the Communications Sectors and Amazon, accounts now for about 45% of the S&P 500, a 50-year high in terms of concentration. Somehow this makes sense, considering that within that limited bunch of stocks there is the so-called secular winners, or companies able to deliver growth in a hostile Covid-19 environment.

Yet, if investors do not soon find reasons for some sector rotation, the correction may eventually stop being healthy. Our TAA positioning sees us slight underweight DM equities and overweight safe havens like gold and IG bonds, following valuations discipline and being well aware that the US pre-election time tends to be particularly volatile. Year-to-date the portfolios have outperformed both their benchmarks and competition. While the buy-the-dip equity crowd is still fretting, credit investors are not batting an eyelid. Even corporate bonds rated junk barely budged yesterday, with only fractional losses on the Bloomberg Barclays US Corporate High Yield Index. Ever since the Fed started to backstop the so-called Fallen Angels, the asset class has lost some of its sensitivity to equities.

Of course, plentiful liquidity remains the best recipe for dampening the beta of high yield benchmarks, as well as for spawning zombie companies. Yesterday companies rushed to borrow on a "Super Tuesday" for debt issuance, with 23 US deals both in IG and HY and 18 deals set to price in Europe. The oil market continued to take a beating, with Brent crude closing below \$40/bbl on widespread risk aversion. Abu Dhabi cutting crude pricing for October, following a similar move by Saudi Arabia over the weekend, was also a relevant driver flashing a negative signal in terms of future oil demand.

Investors seem also to be awakening to the prospect of intensifying tensions between the US and China, irrespective of who is going to win the presidency. The bias remained bearish for the Sterling as well, which shed more than 1% amidst general dollar strength. Multiple negative factors continue to cloud its outlook, from expectations of a cut in May implying negative policy rates, to dire economic prospects, to Boris Johnson's hardline negotiating tactics. Some strategists ascribe a 40% probability now to a No Deal Brexit, quite a significant number for a tail-risk scenario. In spite of growing market concerns about the sustainability of the spectacular rally since the March, lows in the US fiscal stimulus seems unlikely to be delivered any time soon. While Senate Majority Leader Mitch McConnell proposed a slimmed-down package, to be voted by this week in the Senate, House Speaker Nancy Pelosi said it "isn't even an attempt to do the right thing".

Stay safe.

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