



CIO OFFICE MORNING MARKET WRAP – Sunday September 13th, 2020. ALSO AVAILABLE ON ALEXA.

After a glorious summer, led by an apparently unbreakable rally in technology stocks, the start of September is much more dramatic. The Nasdaq was down 5 of the last 6 sessions, generating anxiety among market participants, especially in the retail space. No doubt, markets are struggling to stabilize and declines in some important tech stocks, starting with Tesla, are spectacular. But it's good to put things in perspectives. Crucially, outsized declines come after outsized appreciations, sometimes with a hyperbolic trajectory with little to no fundamental explanation. A correction was simply overdue.

Looking at magnitude, we are actually far from a crash: stock indices are simply back to their mid-August levels. Last week's market movements were erratic but at the end of the day, stock markets were down by a very reasonable -1.3% in developed markets and not even -1% in emerging markets. Most of other major asset classes had weekly returns between -0.2 and +0.2%. This definitely doesn't look like a radical change in direction. There was little major economic data being released last week, no significant shift in monetary policy, and companies were quiet as well, one month before the end of the quarter. In the absence of fundamental facts to react to, behavioral factors are driving markets, especially sentiment.

Reasons to be anxious are well known: the virus is not under control, and many important items of the US and international outlook are hostages to the US Presidential campaign, with a non-negligible risk of contested results in November. None of them is new, and none of them has been an issue for markets in the last months. The reasons to be reasonably constructive are also unchanged: we live with the virus, the economic recovery is confirmed, it lifts earnings, and as interest rates will remain ultra-low for long, a high valuation multiple is justified.

We thus are not overly worried by the current volatility episode, even if there is no obvious catalyst in the short-term to end it. The US is now only about elections; investors have to assess the market risks of both a Biden victory, with probably more taxes and anti-trust regulation, and of weeks without a final result in case of contestation. We will know only in November, and hope that before that, Washington will be able to forge a minimal viable deal to mitigate the effects of its current fiscal cliff.

In the meantime, the Brexit should make headlines again. The UK took a very aggressive stance last week, with a unilateral and legally challengeable change in the Withdrawal Treaty in particular. The risk of a hard Brexit is clearly as high as ever, but historically, the no-deal threat has been the only way to get the EU actually negotiating. While the West is sadly not showing the brightest face of democracy, China is flying. Next week's industrial production and retail sales should confirm that their Q2 V-shaped recovery was only the beginning. The monthly Fed meeting should see no change in policy. We could however get more color on their new stance on inflation and on how they want to see the forward guidance evolve.

Stay safe.

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