



CIO OFFICE MORNING MARKET WRAP – Wednesday October 21st, 2020. ALSO AVAILABLE ON ALEXA.

Markets are stuck in a holding pattern amidst a lack of catalysts, both unwilling to give up gains in spite of dwindling chances of any forthcoming fiscal aid from Congress and unable to break out higher with the Nov. 3 risk event looming larger. Although the House Speaker Nancy Pelosi remained hopeful about a deal, Republican Senate Majority Leader Mitch McConnell warned the White House not to strike an agreement before the election. The S&P 500 closed up 0.5%, following a loss of 1.6% in the previous session. Long-dated US Treasury yields continued to inch higher, with bear-steepening wagers at their topmost level in a decade; as of the time of writing this morning the 10-year Treasury yield is quoting above the 0.8% mark.

In spite of renewed animal spirits animating investors, so much ink used for the word 'stimulus' points to a very discomfoting backdrop, whereby most organic growth drivers have dissipated and public outlays play the lion's share in driving the cycle. Long gone are the days when one could rely on the economy to expand on surging demand. Nowadays the economy grows mainly on government monies being spent, simply because demand from the private sector is just insufficient given the current level of supply and central banks have already exhausted much of their resources. The remarks made at last week's IMF and World Bank annual meeting by Carmen Reinhart, Chief Economist of the World Bank, that "first you worry about fighting the war, then you figure out how to pay for it", should be read along these lines.

The point is indeed how effectively the war is being fought. In Europe the spectre of a double dip recession is at the forefront of economists' minds, as rising virus infections and new restrictions risk short-circuiting the budding expansion. How can European leaders be willing to put the recovery at risk, knowing what kind of financial effort is required for countries to dig themselves out of their dire straits again? One would have thought that growing indebtedness on virus relief was a one-off, not something to be repeated at leisure for the sake of a hard-to-achieve Covid-19 containment. And if vaccines will not prove to be a cure-all, drawing on all of the available resources today could prove to be self-defeating for tomorrow.

Crude markets seem to be in for tougher times as well, with oil demand flagging amidst the unabated pandemic and OPEC set to start removing production curbs by year-end. Although the ministerial meeting on Monday did not bring any changes to the planned easing of output cuts, Russia may support delays if the market situation worsens. The OPEC+ meeting in December will see key decisions for future supply being taken. Brent prices have been range-bound between \$40 and \$44/bbl for the last couple of months.

The US Justice Department filed a lawsuit against Google, the "monopoly gatekeeper for the internet", on antitrust violations. The case resembles the one brought against Microsoft more than 20 years ago and it is indeed the most high-profile antitrust action taken by the government since that time. Although noise about the breaking up of technology behemoths is getting louder, that would most likely not happen without changing Senate rules making obstruction tactics easier. Longer-term investors, though, may have not found it reassuring that yesterday Tech shares shook off the antitrust assault on Google.

Stay safe.

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