



## **CIO OFFICE MORNING MARKET WRAP – Thursday October 22<sup>nd</sup>, 2020. ALSO AVAILABLE ON ALEXA**

Markets were little changed in the United States and Europe stocks fell on partial lockdowns clouding the outlook. Equity futures retreated after intelligence officials said Russia and Iran are trying to interfere with the US presidential elections and this morning Asian equities are slightly negative. The to and fro on fiscal stimulus continued, though it seems unlikely that a relief bill will be passed before November 3rd. Chief of Staff Meadows said that the president is “willing to lean into this” and persuade reluctant Republican senators to approve multi-billion dollar measures.

The Fed governor Lael Brainard, a possible future Treasury secretary in the case of a Biden win, warned that the “easiest improvements” in the labour market “are likely behind us”. She said that, apart from the virus itself, the most significant downside risk to the economy would be “the failure of additional fiscal support to materialize”.

With investors focused on fiscal packages to come, Treasury yields extended their move higher yesterday, though they pulled back significantly as equity futures printed new lows for the week. The yield on the 10-year Treasury note hit a four-month high of 0.834%, and the 30-year rate rose to 1.65%. The dollar got little support from higher yields, sliding in the direction of its early-September lows. This can be partially explained by dollar-hedging costs for foreign investors getting cheaper with the steepening of the US curve. Overseas Treasury buyers will now find it profitable to hedge FX exposure by selling dollars in currency forwards. The AI frenzy is starting to be rewarding for some investors.

This year the AI Powered Equity ETF has returned double the S&P 500, being currently invested heavily in Healthcare and Discretionary stocks, modestly in Tech and not that much in cyclical equities. According to the research company managing it, the message that it sends is that Tech is still working, while it is not yet the time of cyclicals. On the reporting-season front Tesla blew estimates for revenue, earnings and positive cash flow in the third quarter and stood by its delivery target for half a million vehicles. Investors' Tech darling Netflix tumbled after missing on subscriber numbers and forecasts. Leaders in Europe reinstated restrictive measures to slow down contagions.

New cases in Germany and Italy hit a record, Milan will be under curfew starting Thursday night and the Czech government warned its health system is at risk of collapse as the pandemic worsens. If the pandemic has seen the dropping of two major taboos, central-bank monetisation of government debt and inoculation of vaccines still in clinical trials, it is the latter trend which is most concerning. China defended giving jabs still in clinical trial to thousands of people with the risk of the virus returning through its borders and claiming the lack of relevant side effects. The country has also started a new kind of diplomacy, promising preferential access to its vaccines to countries across Asia.

Stay safe.

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