Weekly Market Summary

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Should Investors Be Worried About a Stock Market Meltdown or Global Monetary Crash?
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Latest Update on Coronavirus: Confirmed cases last at 26.50 million, with the death toll from the pandemic at 873,788. Total cases in India have lately shot up to almost 4 million. In Italy, former Premier Silvio Berlusconi was hospitalized in Milan after testing positive for the virus. The Bank of England is likely to have to ease monetary policy further to help combat the economic impact of the coronavirus, according to central bank officials. Yesterday, the World Health Organization (WHO) reported that the use of corticosteroids reduced the death rate among "*severe and critical condition*" patients by 34%.

A local monetary crisis is a crisis in the currency of an individual capitalist country that occurs as a result of a general economic catastrophe, war, inflation, or other political factors and is usually temporary in nature (though at times quite prolonged). On the other hand, a "*monetary crash*" - as defined by Natixis bank - is a situation where an excessive supply of money leads to a loss of value of money, simply because economic agents lose confidence in money and try to protect themselves against such loss by shifting investments into real estate, private currencies (Bitcoin, etc.), gold and other precious metals. The latter is a very dangerous situation for the global economy as all economic agents holding money are impoverished by this loss of value, but more importantly because further money creation would no longer stimulate the real economy – rather simply further raising the prices of safe-haven assets (fingers crossed we're not anywhere close to such scenario unfolding in front of our very eyes!)

In recent market updates released over past weeks, we repeatedly cautioned our customers that markets appear to be just focused on positives, with risk sentiment holding up as government / central banks keep doing what they are doing – namely injecting additional liquidity to markets, squashing real yields even lower and driving gains in all corners of financial markets (after all, lower interest rates make all other assets more inviting as real yields are one of the most important gauges of financial valuations). We also referred to a "*Strange Calm Before the Storm*" and a "*Misleading Herd Behavior*" to suggest that stocks and bonds had stayed very steady and quiet (meaning well behaved with little volatility) for so long now that it felt almost disconcerting! Our conclusion remained that investors, cheered by signs of calm, should not necessarily see this as an all-clear as their current sole focus on positives absurdly overvalues prices of financial assets, potentially leading to a swift market reversal once the investing herd realizes the glaring disconnection between the economic/political reality and the valuation of these financial assets in question.

On Wednesday evening, and despite lingering global economic risks from the Covid-19 pandemic and geopolitical tensions, both the S&P 500 and Nasdaq notched record highs (3,588 and 12,074 respectively). That in turn prompted Ron William, market strategist and founder of RW Advisory, to suggest that equity prices could be on the cusp of a sharp collapse known as a "*Minsky moment*," possibly retesting lows last seen in March. A "*Minsky moment*" - named after economist Hyman Minsky – refers to a sudden market collapse following an unsustainable bull run, which in this case could have been fueled by the "easy credit" environment created as a result of unprecedented fiscal and monetary stimulus measures. Ron's skepticism looks timely and smart after big technology companies posted the biggest drop since March during yesterday's session. Whilst the correction was abrupt (S&P 500: -3.51%; NASDAQ: -4.96%), it was well overdue given how crowded the mega-cap tech trade had become; And with market attention likely to turn to the upcoming US presidential election after the holiday weekend, many traders were willing to trim risk and take profits off the table.

Currently, the more interesting question is what happens next: Will stocks get in line with a growing set of market segments that have been somewhat more in harmony with slowing fundamentals recently, or will this latest sell-off simply trigger what has been an extremely reliable and rewarding "*buy-the-dip*" practice? Unfortunately, answers to this question have been rendered a lot more uncertain by the extent to which extremely loose monetary policy has distorted market valuations and conditioning. Specifically, two set of forces are facing off: The continuation of favorable market technical and central banks' large-scale asset purchase programs versus the positioning of the derivatives market and greater assertions of fundamentals.

Below, we leave our readers with a coverage of major stories that have shaped our world/markets over the past week:

- ***Powell's Fed Shift Allows for Higher Employment and Inflation:*** Federal Reserve Chairman Jerome Powell unveiled a new approach to setting US monetary policy during a speech he delivered virtually at last Thursday's central bank's annual policy symposium (traditionally held in Jackson Hole, Wyoming). Powell said the Fed will seek inflation that averages 2.0% over time, a step that will allow for price pressures to overshoot after periods of weakness. It also adjusted its view of full employment to allow labor-market gains to reach more workers. While expected, the announcement of the strategy shift came sooner than some investors thought and resulted in a renewed record-breaking rally in US stocks. Elsewhere, the Treasury yield curve steepened to the widest in two months as traders bet policy rates will remain locked near zero for even longer.

- ***JPMorgan's Kalanovic Says Prepare for Rising Trump Re-Election Odds:*** Investors should position for rising odds President Trump will win re-election in early November, JPMorgan strategist Marko Kolanovic wrote recently. Kolanovic, who has been accurate on calls including the stock rally after Trump's election and the rebound from Covid-19-fueled lows earlier this year, did not spell out the implications of a Trump win in his note to clients. Previously, JPMorgan strategists had suggested that a Biden victory would lead to a weaker dollar and an underperformance of US assets in general.

- ***Antitrust Charges Against Google:*** The US Justice Department plans to bring an antitrust case against Google as soon as this month. Alphabet has always been an obvious antitrust target; Through YouTube, Google search, Google maps and a suite of online advertising products, consumers interact with the company nearly every time they search for information or perform tasks online and the Justice department has already amassed powerful evidence of anticompetitive practices. The Google case could give Mr. Trump an election-season achievement.

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