

# Weekly Market Summary

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**Fade the Latest Rally or Simply Follow the Prevailing Trend?! Depends on Whom You Ask!**

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*Latest Update on Coronavirus:* Confirmed cases last at 53.22 million, with the death toll from the pandemic at 1,301,630. Germany dashed optimism about an easing of restrictions by Christmas, and Austria flagged plans for tougher rules as infections continue to rise. Tesla Inc.'s Elon Musk tweeted that he may have Covid-19, while calling tests “*bogus*”. California passed 1 million infections as the US Centers for Disease Control (CDC) and prevention said almost no part of the country is being spared in the surge. Still, the fatality rate for infected people in the US has declined 30% since April due to improved treatment, according to a study by the University of Washington's Institute for Health Metrics & Evaluation

Equity markets surged between 7-9% last week (S&P, Dow Jones Industrial Average and Nasdaq respectively), their best performance in seven months, as investors positioned themselves for a positive 2020 elections' outcome. For months, traders and fund managers had projected a jolt of volatility around the presidential contest and penciled countless scenarios for how individual stocks and sectors would react to the final outcome (a Biden landslide, a Trump win or a too-close-to-call situation), with many anticipating a Democratic sweep in Congress and the White House (the “*Blue Wave*”). Some of these projections fell flat, but stocks soared anyway; In fact, preliminary results of the races did ripple through various financial asset classes, igniting a similar rally across the bond market (from corporate debt to Treasuries and municipals), commodities and digital currencies. Those market moves did catch various fund managers off guard, with many blaming weekly reversals and momentum-fueled rallies in the stock and bond market on investors unwinding bearish bets placed ahead of the election, as well as computerized trading strategies that jumped into the market as soon as volatility started to tumble.

This week wasn't expected to be much different, with the prevailing mantra being “*find some good news and keep buying!*” After all, there surely was a sigh of relief over the weekend when CNN called the 2020 presidential election for Joe Biden (Saturday, November 7<sup>th</sup>, 11:24 am Eastern time / 7:24 pm Bahrain time), whilst NBC, MSNBC, CBS, ABC, the AP and Fox News followed with their own calls soon after. For the most part, investors were reassured that it didn't appear the outcome of the election would be mired in uncertainty for as long as feared, irrespective of who would be President in the end (try telling that that to Evangelicals who feel that Trump's presidency can be likened to a biblical prophecy and still trust that the Donald will be re-elected for a second term after divine intervention 😊). They also warmed to the prospect of a divided government, which would in turn make sweeping overhauls of the tax code or regulations less likely. To add fuel to the fire, the October job report - released last Friday afternoon – also showed hiring picking-up at a stronger pace than expected, with the unemployment rate falling to 6.9% last month, better than the 7.6% economists' consensus (and down from 7.9% in September).

By the time Asian markets resumed trading on Monday morning, risk-on sentiment was clearly dominating! US equity futures and Asian bourses were roughly 2.0% up from Friday's closings, Brent oil had risen above \$40 a barrel, whilst 10-year UST yields jumped 3 bps. Elsewhere, the US Dollar had come under further pressure - showing signs of weakness against most major currencies.

*The Pfizer Surreal Moment and the Automated Herd Mentality Trading!*

At 2:45 pm (Bahrain time) on Monday afternoon, Pfizer - an American pharmaceutical corporation headquartered in New York - with its German partner BioNTech announced that its coronavirus vaccine has a 90% effectiveness, triggering the mother of all rallies in the value of the Dow Jones Industrial Average (at one point, up a staggering 1,600 point or 4.9%, before settling slightly lower by the close) and oil prices (December WTI surging 8% in less than 2 hours). The favorable news, straight endorsed by Dr Anthony Fauci (the same gentleman that threw the dreadful ceremonial pitch for the start of the 2020 baseball season) and touted by President Trump and president-elect Biden, meant that an efficient Covid-19 vaccine candidate would very soon be made available – putting the pandemic behind us. In fact, Pfizer's CEO Dr. Albert Bourla noted that this was the most significant medical advance in the last hundred years! (so advanced that he chose later that day to unload 132,506 shares of Pfizer stock at \$41.94 – near the company's peak – for a total of nearly \$5.6 million, triggering calls by watchdog groups for the SEC to start an investigation, whilst other critics questioned whether the company's announcement had been delayed to hurt president Trump on election day 😊).

Surely curbing a virus that has not only claimed too many lives but also risks long-term economic and health damage to a growing size of the world population remains a top priority at this stage. Preliminary positive results for the Pfizer-BioNTech Covid-19 vaccine would now pave the way for the companies to seek an emergency-use authorization from the regulators IF further research shows the shot is safe (initial results were published in a press release, not a peer-reviewed journal study!) Should the data hold up and governmental approvals be granted (the US Food and Drug Administration, "FDA", insisting it wants to accrue a minimum of five severe cases in drug trials and follow that with a review by outside experts prior to a final endorsement for any future Covid-19 vaccine), it could mean that the world has a vital new tool to control the pandemic. The recent development would also bode well for the other experimental vaccines, in particular one being developed by Moderna Inc. (the Gates foundation's favorite!) that uses similar mRNA technology. Still, questions about production, distribution and most importantly the performance and capability of the shot itself still need to be answered, even if the initial readings look highly promising according to vaccine specialists. The Pfizer trial started less than four months ago, and how long the vaccine will confer protection and how many will benefit remain almost complete unknowns for now.

There are plenty of reasons to buy or sell stocks, commodities and bonds that have nothing to do with economic valuations. There always are - be it political, geopolitical and most recently health motives. To many market players, something significant has changed this week, and a lot of uncertainty has been removed. That in turn should provide the required impetus for a further push higher in stock and commodity prices, whilst capping bonds around current levels (i.e. lower prices and higher yields). In that context, JP Morgan Chase & Co. strategists have lately increased their exposure to global stocks and backed away further from sovereign bonds, calling this week's positive vaccine news a "*game changer*" for markets. "*We expect equities to continue to rally, and bonds to sell-off,*" the JPMorgan team wrote yesterday. "*We retain a pro-risk allocation in our model portfolio given the easing of major market risks, still moderate investor positioning, strong growth rebound and robust policy support.*"

Our view remains a more cautious one, especially that we believe it is too early to celebrate. After all, it will take a significant amount of time before economically-constraining measures can become a thing from the past and for now more containment is and will be announced in the coming days across Europe and the US in an attempt to stop the current rate of infection (globally, we just recorded the worst week in terms of new daily cases and deaths since the start of the pandemic!). That is not to mention that Brexit and the aftermath of the US election will also undeniably continue to weigh on investors' mind and investing decisions as we head into the new year. All these present uncertainties/risks would also explain regular warnings by the Fed that asset prices in key markets could still take a hit if the coronavirus pandemic's economic impact worsens in coming months and/or "*should economic recovery prove less promising or progress on containing the virus disappoint*" (according to the US Federal Reserve's twice-yearly Financial Stability Report released last Monday).

To end this week's economic write-up on a more "*relaxed & happy*" note, one has to refer to Deutsche Bank AG strategists' latest call in relation to future remote work. "*Working from home will be part of the 'new normal' well after the pandemic has passed,*" the DB team led by Luke Templeman wrote in a recent note. "*We argue that remote workers should pay a 5% tax for the privilege,*" as working in the comfort of one's home saves money on transportation, lunch and socializing! (music to any employer's ear 😊)

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