

Weekly Market Summary

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To Stimulate or Not to Stimulate Was That the Question?!

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Latest Update on Coronavirus: Confirmed cases last at 39.25 million, with the death toll from the pandemic at 1,104,1558. Pfizer Inc. said earlier that it could seek emergency-use authorization for its Covid-19 vaccine in the US by late November if the shot is shown to be effective in a large late-stage trial. Elsewhere, the resurgence of the coronavirus in Europe has picked up pace, with record new cases from Germany to Italy raising the risk of fresh lockdowns. Finland Prime Minister Sanna Marin has left the EU summit in Brussels as a precautionary measure after a member of the Finnish parliament who had been in the same committee room as her on Wednesday tested positive for coronavirus. And several medical studies have found that sufficient Vitamin C, D and Zinc can keep us all healthier and reduce COVID deaths by a great percentage.

It seems as though everyone has forgotten about the second Corona wave, mounting geopolitical tensions (latest Azerbaijan attacks inside Armenia threatening to bring a mutual defense pact between Russia and Armenia into focus as the worst fighting in decades over Nagorno-Karabakh continues in defiance of a cease-fire accord that supposedly took effect last Saturday!), faltering UK trade talks with the European Union (following a downbeat summit overnight) and the never-ending trade war between the US and China (also to a lesser extent deepening frictions between the US and Europe following the latest WTO ruling that gave the European Union permission to hit \$4 billion of American goods with tariffs).

And if the above worry list isn't enough to trigger some risk-off trading (lower equity and oil prices as well as depressed government bond yields), investors are constantly reminded that "chaotic" US elections are just around the corner - with both presidential candidates Trump and Biden fiercely clashing and trading insults at every opportunity ("*Worst president America has ever had ... Will you Shut Up, Man? ... It's hard to get any word in with this Clown ... Racist ... The Lowest or Almost the Lowest in his class ... Nothing Smart about you*"). In case you have missed those spicy exchanges, tune up to the SNL YouTube replay with Alec Baldwin, Jim Carrey and May Rudolph... Priceless! 😊

So why is it that markets are currently so detached from reality?

According to the latest version of the Bank of America Securities' closely followed monthly survey of global fund managers, the long preoccupation with US – Chinese trade has almost dropped off the list of professional investors' concerns. It now ranks only fourth, behind the Coronavirus, the US election and a possible credit event. Before the pandemic struck, the trade war had been feared as the greatest tail risk for the past two years.

Still, assuming Covid-19 is the number one current concern, then surely the news on that front isn't much comforting too! The shocking broadcast that president Donald Trump had tested positive earlier this month has now added a new level of uncertainty to next month's election, whilst also sharply reducing the chances of a significant relaxation in lockdown provisions in the US (as previously a large part of the population believed that the pandemic was a hoax). Additionally, European nations, including Germany (the growth engine), are now reporting record daily Covid-19 cases, with rising outbreaks prompting tougher curbs on London, a curfew in Paris and stricter measures in Belgium and hardly-hit Eastern European countries (whilst the US yesterday reported the most daily cases in two months as total infections breach the 8.0 million mark).

The main argument for market complacency in past weeks, that has not only allowed investors to brush a number of negative influences but also pulled stocks higher to one record after the other, has been high hopes that a large fiscal stimulus deal would be agreed by both Democrats and Republicans before the upcoming US election. After all, politicians on both sides would want to be seen as willing to achieve something in these difficult times, and lately Covid-19 had suddenly started to look again like much more of an immediate problem than it did a month or two back. And with the US election about 18 days away, there is surely a renewed sense of urgency to get a deal done. President Trump said in a tweet yesterday that he is ready to sign a stimulus bill – that would include a second stimulus check (the US mega money printing/creation!) – if lawmakers can get one on his desk. “*Go Big or go Home*”, Trump has said repeatedly this week, referring to stimulus aid, adding most recently on Fox Business Network that he would “*absolutely*” go higher than the White House’s current \$1.8 billion stimulus offer! (that’s the same president who instructed his Treasury Secretary and top economic advisers on October 6th to stop negotiating a deal with the Republicans!)

A more troubling narrative about markets holding well in the face of negative developments doesn’t depend on the possibility of further stimulus, but rather brings to light repressed investors’ appetite to challenge elevated market valuations given their experience with, and respect for ample and repeated US Federal Reserve liquidity injections (we will refer to that as the Bond Whale), their fear from still-elevated activity in the equity option market (alias the Nasdaq Whale), as well as their acknowledgement that they could “Ouch like Hell” should they decide to bet against higher oil prices (the presumed Oil Whale).

Nonetheless, to be sustainable, elevated market estimations will sooner or later need to be validated by further improvement in economic and corporate fundamentals, rather than by elusive fresh US stimulus (at least for now) and/or market manipulation. Otherwise, thin liquidity conditions and lack of bright spots going into year-end can surely fuel large market corrections and unpleasant assets’ whipsaws

At this point, one can only hope that the US presidential election will take place as planned on November 3rd in a smooth / transparent atmosphere and that the Coronavirus pandemic would soon ease – to allow life to quickly go back to normal and markets to breathe a sigh of relief !

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