The Weekly Market View

September 27 2020

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US stocks flirt with 10% correction, but do better than global stocks

As September draws to an end, US stocks continued to slide for a fourth consecutive week, something that had not happened since 2019. Interestingly, whilst the slide started at the beginning of the month on the back of a correction in the arguably overbought tech sectors, this week brought some normality with tech sectors managing to gain, US markets again outperforming European and Emerging markets, and the US dollar further recovering in line with its preferred status when global markets suffer a risk-off moment. Indeed, whilst US Treasuries admittedly gained only modestly, energy and commodities suffered as did, quite significantly, gold. As we have said before, a correction after an incredible 6-month rally was inevitable and is arguably a healthy development. First and foremost, investors realize that markets are now discounting a global recovery in 2021 and thus are naturally inclined to take some profit as the last three months of the year are loaded with risks. For one thing, the passing away of Supreme Justice Ruth Bader Ginzburg, and the Republicans's insistence that a successor be confirmed some time in October, has further cooled expectations that a fiscal stimulus package can be agreed on any time soon (although we still believe that Republicans have a very strong incentive to propose a compromise that is acceptable to Democratic majority in the House of Representatives). With the flu season arriving on both sides of the Atlantic, rising talk about new lockdowns in Europe – and by implication also in the US – are making markets even more nervous, especially as it is becoming obvious that a vaccine before Summer 2021 was always a (politically motivated) illusion. Also the US election risks have turned for the worse. Indeed, the discussion is no longer about which candidate would be better or worse for (which parts of) the economy, and thus for which market sectors. Rather, fears have risen that the determination of the winner of the elections could be fraught with difficulties, creating the spectre of political stability in between Election Day on November 3 and Inauguration Day on January 20. Add to that the increased probability of trade tensions between the US and China, as well as the US and the EU, as well as a possible breakdown in the EU-UK trade negotiations and market nervousness makes fully sense.

On our side we don't think that all these risks are likely to materialize. Indeed, it might well be that all of them – in one way or the other – will find a positive resolution. But that is not the point. The point is that the risks are now there, and there to stay at least through the next month or two. Thus the volatility and downward pressures are there to stay too.

Economic data likely to remain inconclusive

We don't think that economic data were a major factor in moving markets last week. Whilst the recovery is naturally and gradually slowing, it seems still on track. Yes, initial jobless claims had risen slightly and the decline in continjuing claims was somewhat disappointing, and also the Markit Services PMI slight declined for the first time in April. The Market Manufacturing PMI on the other hand did better with firms restocking inventories depleted by the COVID19 events. Also much more comforting were the significant rise in new home sales and the rise in the core capital goods component of the durable goods orders. Next week we will have the very important US labor data for the month of September, as well as the Manuacturing PMIs for all major economies. We do not expect major changes in the current trend. US labor market data will continue to improve at a naturally declining pace, whilst other economic data will remain moderately constructive too. Markets will not find in economic data major reasons to rally. It is precisely therefore that the many risks that will cloud the horizon through the end of the year will remain sources of continuing volatility.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,298	-0.6	2.1
Dow Jones	27,174	-1.7	-4.8
Nasdaq	10,914	1.1	21.6
DAX	12,469	-4.9	-5.9
Nikkei 225	23,346	-0.7	-1.9
FTSE 100	5,843	-2.7	-22.5
Sensex	37,389	-3.8	-9.4
Hang Seng	23,235	-5.0	-17.6
Regional Markets (Sunday to Thursday)			
ADX	4,467	-1.0	-12.0
DFM	2,252	-3.0	-18.5
Tadawul	8,236	-1.2	-1.8
DSM	9,788	-1.5	-6.1
MSM30	3,627	-0.6	-8.9
BHSE	1,450	1.1	-9.9
KWSE	5,609	3.0	-10.7
MSCI			
MSCI World	2,300	-1.7	-1.3
MSCI EM	1,058	-4.5	-5.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	41.9	-2.9	-36.5
Nymex WTI USD/bbl	40.3	-2.1	-34.1
Gold USD/t oz	1,861.6	-4.6	22.7
Silver USD/t oz	22.9	-14.5	28.2
Platinum USD/t oz	849.4	-8.8	-12.1
Copper USD/MT	6,538.5	-4.5	6.1
Alluminium	1,715.5	-2.5	-3.6
Currencies			
EUR USD	1.16	-1.8	3.7
GBP USD	1.27	-1.3	-3.9
USD JPY	105.58	1.0	-2.9
CHF USD	0.93	1.8	4.1
Rates			
USD Libor 3m	0.23	3.5	-87.8
USD Libor 12m	0.37	-0.5	-81.4
UAE Eibor 3m	0.46	5.1	-79.0
UAE Eibor 12m	0.69	-14.6	-69.9
US 3m Bills	0.09	12.5	-94.1
US 10yr Treasury	0.65	-5.7	-65.9

Summary market outlook

Global Yields	Yields on 10Y USTs, UK Gilts, German bunds and JGBs ended the week down to flat from the week earlier.. We recommend increasing duration on US treasuries with long-term rates likely to remain pressed low on Fed's QE and low growth and inflation environment.
Stress and Risk Indicators	During the past week, VIX index edged up in line with the increased risk off mode. We believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning.
Equity Markets	
Local Equity Markets	Most GCC equity markets delivered negative returns last week in line with other emerging markets and the decline in the oil price. We remain neutral on GCC equities given stable to higher oil prices and potential for revival in credit growth following the interest rate cuts.
Global Equity Markets	Equity markets corrected further. Developed markets outperformed emerging markets. US equities registered losses with the S&P 500 index falling for the fourth consecutive week. Tech stocks however managed positive results and US markets outperformed most other markets. Whilst we are cautious near-term, we are constructive on equities over a 12 month time frame. We remain neutral on equities with an overweight on US and underweight EU and EM outside Asia. By sector we prefer IT and Communication services. Our preference is for large cap non-cyclical growth with focus of quality.
Commodities	
Precious Metals	Precious metal prices corrected significantly. We remain overweight gold as a risk hedge against ongoing political risks, but already a month ago we highlighted that some correction was and still is likely after the impressive 2020 rally.
Energy	Oil prices corrected in line with the overall risk-off mood. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices suffered significantly too. We continue to discourage industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR lost significantly against the USD last week after having appreciated considerably since May this year. We expect the euro to remain stable.
Critical levels	R2 1.1716 · R1 1.1673 · S1 1.1600 · S2 1.1570
GBPUSD	Cable continued to suffer too as as Brexit risks took again center stage. Beyond Brexit, we expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.2863 · R1 1.2805 · S1 1.2688 · S2 1.2629
USDJPY	Even the JPY lost against the USD, in spite of the general risk-off mood. BoJ yield curve targeting should however put continuing downward pressure on the yen.
Critical levels	R2 105.97 · R1 105.77 · S1 105.31 · S2 102.05

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

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Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
09/30/2020	GDP Annualized QoQ	2A T	-31.6%	-31.7%	The main focus will be on the US jobs data for September, especially with the government's failure of agreeing on the stimulus plan. Bloomberg consensus expects payrolls to rise less than August. More importantly, this will be the final jobs report before the US election. The final Markit Manufacturing PMI and ISM manufacturing number will also be important after the advanced estimate of Markit Manufacturing PMI overshot market expectations.
09/30/2020	Core PCE QoQ	2A T	-	-1.0%	
10/01/2020	Continuing Claims	19-Sep	-	-	
10/01/2020	**Markit US Manufacturing PMI**	**Sep F**	**-**	**53.5**	
10/01/2020	**ISM Manufacturing**	**Sep**	**55.8**	**56**	
10/02/2020	**Change in Nonfarm Payrolls**	**Sep**	**865k**	**1371k**	
10/02/2020	**Unemployment Rate**	**Sep**	**8.2%**	**8.4%**	
10/02/2020	**Average Hourly Earnings MoM**	**Sep**	**0.2%**	**0.4%**	
10/02/2020	Univ. of Mich. Current Conditions	Sep-F	-	87.5	
10/02/2020	Durable Goods Orders	Aug F	-	-	

Japan

	Indicator	Period	Expected	Prior	Comments
09/30/2020	Industrial Production YoY	Aug P	-13.5%	15.5%	Attention will be on the Tankan manufacturing and non-manufacturing survey with markets anticipating a less pessimistic trend for Septmeber. The final release of Japan manufacturing PMI will also be important.
09/30/2020	Retail Sales YoY	Aug	-3.0%	-2.9%	
09/30/2020	Machine Tool Orders YoY.	Aug F	--	-23.3%	
10/01/2020	**Tankan Large Mfg Index**	**3Q**	**-22**	**-34**	
10/01/2020	**Tankan Large Non-Mfg Index**	**3Q**	**-9**	**-17**	
10/01/2020	**Jibun Bank Japan PMI Mfg**	**Sep F**	**--**	**47.3**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/28/2020	**ECB's Lagarde in European Parliament Hearing**				Focus will be on the preliminary Eurozone inflation reading. Markets will be closely watching whether price pressures have recovered in the positive territory after negative inflation report in August
09/29/2020	Consumer Confidence	Sep F		-13.9	
09/30/2020	**CPI Estimate YoY**	**Sep**		**-0.2%**	
09/30/2020	**CPI Core YoY**	**Sep P**		**0.4%**	
10/01/2020	**Markit Eurozone Manufacturing PMI**	**Sep F**		**53.7**	
09/24/2020	Unemployment Rate	Aug	8.0%	7.9%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/30/2020	GDP QoQ	2Q F	-20.40%	-20.4%	The final Markit Manufacturing PMI number will be the main focus.
10/01/2020	**Markit UK PMI Manufacturing SA**	**Sep F**	**-**	**54.3**	

China and India

	Indicator	Period	Expected	Prior	Comments
09/30/2020	**Manufacturing PMI (CH)**	**Sep**	**51.5**	**51**	China Official and Caixin PMI will be closely watched with consensus expecting stronger expansion in September. In India, the RBI decision will be very important, where the central bank is likely to keep rates on hold amidst rising inflation.
09/30/2020	Non-manufacturing PMI (CH)	Sep	54.9	55.2	
09/30/2020	**Caixin China PMI Mfg (CH)**	**Sep**	**53.3**	**53.1**	
10/01/2020	**Markit India PMI Mfg (IN)**	**Sep**		**52**	
10/01/2020	**RBI Repurchase Rate (IN)**	**1-Oct**	**4.0%**	**4.0%**	
10/01/2020	**RBI Reverse Repo Rate (IN)**	**1-Oct**	**3.35%**		

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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