Market recap 22.11.2020

United States

It looks as if the market read a recent Goldman Sachs report, which beckoned at the possibility of starting to "shift from the hope-driven economy to the growth-driven economy". The Dow Jones Industrial Average fell 220 points (0.8%) to 29,263, the S&P 500 Index was down 24 points (0.7%) at 3,558, and the Nasdaq Composite declined 50 points (0.4%) to 11,855. In heavy volume, 952 million shares were traded on the NYSE and 3.7 billion shares changed hands on the Nasdaq. Most importantly, though, markets have witnessed a significant rotation in asset allocations for portfolios, from the technology sector and into more cyclicals stocks. Energy and financials – negatively impacted by the pandemic and more sensitive to the reopening of the economy – outperformed, while sectors that have benefited from the pandemic – technology and communication services – lagged. A similar rotation occurred with small-cap and international investments outpacing US large-cap and, to put the icing on the cake, value outperformed growth.

The third quarter earnings season ended well with 84% of companies reporting results which exceeded estimates, the highest level since 2008. The good news on vaccines is bad news for the share price of Zoom, while Moderna (+8.2%) reported its vaccine efficacy at 94.5% to trigger another value rally: Netflix (-0.8%) and Amazon (-0.5%) gave way to Carnival (+10.7%), Simon Property (+8.9%) and Boeing (+7.0%). On the retail side, Target smashed sales and profit estimates, delivering 21% growth in both physical store and online sales, after Walmart reported a sales growth of 7%. Even Dow members Walmart Inc and Home Depot Inc remaining robust, as digital sales surged.

Institution	Status	Country	Type of vaccine
Novavax	-	U.S.	Protein subunit
Moderna and the National Institute of Health	-	U.S.	RNA
Johnson & Johnson	Paused	U.S.	Non-replicating viral vector
BioNTech/Fosun Pharma/Pfizer	-	U.S. & Europe	RNA (4 different vaccine variations)
University of Oxford/ AstraZeneca/ Serum Institute of India	Paused	UK	Non-replicating viral vector
Sinovac Biotech	Approved for Limited Use	China	Inactivated
Beijing Institute of Biological Products and Sinopharm	Approved for Limited Use	China	Inactivated
Wuhan Institute of Biological Products and Sinopharm	Approved for Limited Use	China	Inactivated
CanSino Biologics	Approved for Limited Use	China	Non-replicating viral vector
Gamaleya Research Institute	Approved for Early Use	Russia	Non-replicating viral vector
Murdoch Children's Research Institute	-	Australia	Live Bacteria

Just as value names rebounded against momentum, Tesla instead rallied 10.1% in after-hour trading after S&P Global announced the car maker would join the S&P 500 index, effectively on December 21st. The index custodian will announce the company replaced by Tesla at a later date. Fund managers that track the S&P 500 will now have to buy the electric car maker's stock for their portfolios, hence the share price increased again on the news. Tesla will be one of the biggest companies by market value in the S&P 500 when it joins.

Unwilling to give up the tech stocks gains, Amazon decided to launch an online pharmacy, threatening disruption to brick-and-mortar locations such as Walgreens and CVS. This entails offering discounts up to 80% to subscribers to its Prime programme, assuring customers that their health data would be kept confidential and separate from other information. The share prices of big pharmacy companies, such as Rite Aid and CVS Health, swooned in response.

In an unexpected twist of events, Treasury Secretary Steven Mnuchin announced in a letter to the Federal Reserve that he would allow several of the central bank's emergency lending programs to expire at the end of the year. Mnuchin cited improved financial conditions in requesting the return of $455bn. Remarkably, Fed officials released a statement announcing their disagreement with the decision, citing a "still-strained and vulnerable economy." Yields on 10-year US treasuries have now given back most of the gains since the Pfizer news, while the DXY — a comparison of the U.S. dollar to six major world currencies — nudged 0.1% higher to 92.36.

The week's economic data arguably provided evidence for the Fed's warnings. Weekly jobless claims rose for the first time in over a month, from 711,000 to 742,000. Claims on state insurance programs continued to fall, from 6.8 million to 6.4 million, although the drop was mostly offset by rising claims on a federal program providing extended benefits. Industrial production rose a bit more than expected in October, but regional manufacturing gauges indicated slowing expansion. The housing sector remained the standout in the recovery, with sales and construction indicators hitting their highest levels since 2006–2007.

Memories of 2017 bubble are flooding back as Bitcoin's charge continues. The digital asset added another 15% to rise above $18,000 this week. It has more than doubled in value this year after a fresh embrace from some Wall Street firms and many watchers are setting their sights on the record high of $20,000. Even the billionaire hedge funder Ray Dalio quoted that he "might be missing something". For instance, some observers point to the entrance of PayPal into the market as a possible reason for the cryptocurrency's shortage.

PNC, a bank operating primarily in America, agreed to buy the American operations of BBVA, a Spanish bank, for $11.6bn. The deal will make PNC the country's fifth-largest commercial bank by assets. At the same moment, BBVA said it was in talks to merge with Sabadell, a rival Spanish bank.

Airbnb filed the prospectus for its long-awaited IPO, which is expected in December. DoorDash, a food-delivery service, also published a prospectus for its flotation.

Europe

Shares in Europe rose for a third consecutive week amid optimism on potential coronavirus vaccines. Countries hit hard by COVID-19 earlier this year and seen as major beneficiaries of vaccine progress were strongest, such as Italy and Spain. The STOXX 600 Index ended the week 0.7% higher, while Germany's DAX Index lost 0.25%, France's CAC 40 gained 1.21%, and Italy's FTSE MIB climbed 2.62%.

All major equity markets European government bond yields declined further after ECB President Lagarde said officials will respond second wave pandemic impacts "with the same approach and determination" as the first – markets, in fact, expect the ECB to expand PEPP by €500bn in December. Such support remains fundamental, proved by the ailing conglomerate Thyssenkrupp falling 3.8% after it said it would need to cut a further 5,000 jobs to ease the impact of the coronavirus on its businesses. On a similar note, Norwegian Air slumped 15.7% after it asked an Irish court to oversee a restructuring of its massive debt to stave off collapse.

An agreement on a €1.8trn budget for the EU, including a special COVID-19 recovery fund worth €750bn, was halted as Poland joined Hungary in threatening a veto because it contains clauses that require recipients to abide by EU standards on the rule of law. The sluggish pace of bureaucracy could worry European investors, already in such a mood after that EU parliament president David Sassoli did not rule out the possibility of cancelling the pandemic government debt with ECB purchases.

The euro was the most used currency for global payments last month, according to data from the Society for Worldwide Interbank Financial Telecommunications, the first time it has outpaced the dollar since February 2013. Trade upheaval, a 200,000+ cases in the US and political disharmony renewed pressure to reduce the share of international payments in dollars. The US currency has weakened more than 11% from its March peak, with predictions of more downside and investors fleeing a bullish dollar exchange-traded fund. Despite this, the dollar remains the top funding currency, the Bank for International Settlements said in a report.

United Kingdom

The UK's FTSE 100 Index added 0.45% and UK gilts largely tracked core markets. The BOE's decision to boost debt purchases by £150bn will alleviate short-term funding pressure, but Chancellor of the Exchequer Sunak is facing rising budget deficit approaching £400bn to exacerbate fears of spending cuts.

The British government brought forward to 2030 the date by which the sale of new petrol and diesel cars will be banned. It forms part of a new "green industrial revolution" strategy, which includes energy-efficiency measures and a boost to offshore-wind power. Critics said the plan would need more money, such as for charging points of the millions of electric cars that drivers should buy.

Reports suggest that three main areas of contention — a level playing field for companies, fishing rights and settling trade disputes — persist as the UK and EU negotiate a post-Brexit agreement on trade. Face-to-face talks have been suspended because a senior negotiator tested positive for COVID-19. France, the Netherlands and Belgium urged the European Commission to start implementing contingency measures in case there is no deal before the Brexit transition ends on December 31.

With flying curtailed during the pandemic, EasyJet reported a £1.3bn annual loss, the first in its 25-year history.

Commodities

Contrary to global interest rates and risk asset markets' reliance on G7 policy outlook, crude oil markets largely reflect simpler catalysts: OPEC+ jockeying is old story, while stronger demand from Asia is buoying oil prices as the pandemic rages elsewhere. WTI crude oil was $0.52 higher at $42.42 per barrel and wholesale gasoline added $0.02 to $1.18 per gallon. Elsewhere, the Bloomberg gold spot price rose $6.57 to $1,873.11 per ounce.

U.S. crude inventories Energy prices continue to diverge from risk assets, while Dubai crude is popular with Asia-based refiners and trading at a premium over WTI to reflect rising demand from both China and India. The demand imbalance is also drawing US crude to the region.

Lumber prices have been strong recently, which tends to be a bullish indicator. Strong lumber indicates strong construction, typically coinciding with an expansionary phase in the economy.

Rest of the world

Stocks in Asia finished the week mixed, with the markets remaining a bit skittish amid the threat of further economic disruption in the U.S. and Europe, yet holding onto optimism regarding a potential vaccine on the horizon. In economic news in the region, Japan's November manufacturing and services sector output decelerated slightly to remain in contraction territory, while China held its 1-year and 5-year loan prime rates steady. Japan's Nikkei 225 Index declined 0.49%, with the yen holding to some gain, Australia's S&P/ASX 200 Index dipped 0.1%, though the Hong Kong Hang Seng Index increased 0.4%, South Korea's Kospi Index nudged 0.2% higher, and India's S&P BSE Sensex 30 Index advanced 0.7%.

On Thursday, the Turkish central bank raised all three of its main lending rates: the one-week repo auction rate (from 10.25% to 15.00%), the overnight lending rate (from 11.75% to 16.50%), and the late liquidity window facility rate (from 14.75% to 19.50%). All of these rates are well above the central bank's projected 12.1% inflation rate at the end of 2020. Meanwhile, President Erdogan continues to criticize higher interest rates, saying "we shouldn't let our investors get crushed by high interest". Turkish stocks, as measured by the BIST-100 Index, returned about 2.5% after the move. The central bank held its first monetary policy meeting during the week with Governor Naci Ağbal.

Swire Pacific was dropped from Hong Kong's Hang Seng index. Founded in 1816, the conglomerate used to be synonymous with business in the territory and is still the largest shareholder in Cathay Pacific. Its replacement in the index is a food-delivery app.

Chinese stocks rose strongly after solid economic data lifted investors' risk appetite. For the week, the large-cap CSI 300 Index gained 1.78% while the benchmark Shanghai Stock Exchange Composite Index added 2.04%. In fixed income markets, the yield on the sovereign 10-year bond increased six basis points to 3.34%. In currency trading, the renminbi strengthened by 0.6% against the U.S. dollar to close at 6.570. The People's Bank of China (PBOC) injected RMB 800bn in medium-term loans into the banking system and left interest rates on hold for the 7th straight month. The central bank also kept its lending facility rate to financial institutions unchanged at 2.95%. Yields on Chinese high yield bonds rose during the week after an unprecedented number of defaults among large state-owned enterprises (SOEs). After the coronavirus, some SOEs reportedly have struggled to make their bond payments, although most China investors appear to believe that Beijing would prevent the failure of a large SOE.

Chilean stocks, as measured by the IPSA Index, returned about 1.2%. A new piece of legislation allowing Chileans to withdraw money from the pension system due to the pandemic-driven economic downturn — the second such bill this year — was approved by the lower chamber of the legislature and appeared likely to be voted upon by the entire senate in the coming week.