# Market Monthly

# October 2020

## Highlights

- **Economics:** Due to extremely low basis, Q3 GDP increase of 33.1% in USA was highest recorded, but cumulative 9 months figure is still trailing. In expectation of the second stimulus package to the economy and the outcome of the elections which are now heavily favors Republican candidate Joe Biden, market indices growth from September lost steam. Despite number of infected exceeds spring values, unemployment rate is still decreasing, October value is 6.9%. Except Apple, other tech giants reported increase of revenues/profit in Q3 earnings, but rising concerns of corona crisis longevity affected short term outlook adversely, and investors were more cautious in second half of month. This is particularly true for Europe, where new movement restriction measures imposed by major states combined with SAP unexpected withdraw from mid-term strategic goals set markets in two combined contraction with cumulative effect of more than -10%. Unlike the other part of the world, with +4.7% GDP increase in Q3, China economy expands by +0.7% in first nine months while whole year growth projection of 2% despite being lower than 6% goal set prior to virus outbreak will make China only major economy to post better results than in 2019.

- **Inflation:** Prices in USA continued to post minor increase, 0.2% higher inflation in September totaling 1.4% Y-o-Y, still below target of 2%. On the other side, deflation is present in Europe with September value of -0.3% and annual figure 0.3%. Other 1Y CPI values for September were: Russia 3.7%; China 1.7%, Brazil 3.1%, India 7.3%

- **Central bank interest rates:** In pre-election month, FED continued to request more stimulus measures and stayed with 0-0.25% corridor of interest rate. Other monetary authorities, like ECB and People's Bank of China kept rates at -0.25% and 3.85% respectively.

- **Capital market rates:** More likely outcome of the US election pushed yields upwardly with value in the end of October reaching 0.9% on 10Y treasuries. Bunds continued to be more expensive, losing 10bps in October, with final value of -0.6%

## Tactical Asset Allocation

- **Forex:** Volatility on this market followed contraction of equity indices in Europe, eur/usd was trading in span 1.16-1.18, with final value of spot 1.165.

- **Bonds incl. High Yields (U[i]):** Since near-zero/negative policy rates and negative real rates are seen persisting in Europe for several years, we continue investing in up to 2028 maturities of European DM bonds to improve yield and look for USD bonds with shorter maturities.

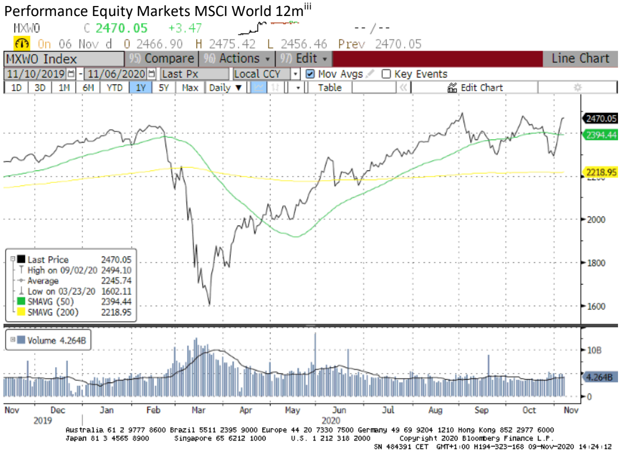
- **Equities (O):** As mentioned, earning season from American companies showed more resilience compared to Europe. Observing sectors, in first half of the month energy and banks segments were disappointing, while the tech sector, especially in Europe, dropped in final days of month. In our opinion, latest contraction was overreaction, and opportunity to enter in those sectors at favorable terms.

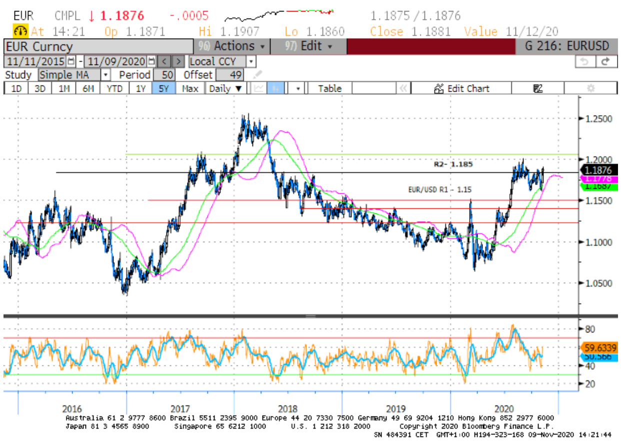
- **Commodities (N):** Rising concerns of lower oil demand due to possible slowing down of production and transportation, price closed month below $36. Also, energy sector is not benefiting from the Biden agenda that is more oriented towards environment friendly companies.

## Investment Ideas[ii]

- We continued to write call options on stocks from overperforming sectors, and invest excess of cash to buy market dips in selected stocks from IT, oil sectors.

Performance Equity Markets MSCI World 12m[iii]




EURUSD Technical Chart 5y, Bloomberg

[i] How to read: (U) underweight; (N) neutral; (O) overweight
[ii] See rationales on our web page www.aspermontcapital.ch

[iii] Return for the last rolling 12m