

## Cheque List

### – Michael Clough

Over the weekend we had confirmation that Joe Biden has won the race to become the next President of the United States of America. Despite Trump claiming election fraud, vowing legal action and thus refusing to concede, Biden is set to take up residence in the White House. One of the main talking points in the run up to this election was around a second stimulus package to help sustain the US economic recovery after a record 31% (annualised) collapse in GDP in Q2. Prior to the election discussions had reached an impasse, putting even greater importance on the composition of US Congress – including the House of Representatives and the Senate – which, at least for this issue, is arguably more important than who actually sits in the White House.

**The size of the stimulus measures we have seen so far this year, both on the fiscal side by governments and the monetary side by central banks, have been extraordinary**

On the eve of the election one poll had Biden with an 8 percentage point lead over Trump and expectations for a ‘blue wave’, or in other words having Biden in the White House and a Democrat controlled House of Representatives and Senate, had risen. This outcome would make it a lot easier to pass through Biden’s agenda, including an extensive stimulus package. This had helped push government bond yields higher in the days coming up to the election with extensive stimulus a tailwind for higher inflation. As results came through last week it seemed likely that Congress would remain divided, with Republicans looking like they would hold the Senate, although this now doesn’t look to be confirmed until January with run-off elections in the state of Georgia. Investors began to question whether Biden’s policies could be implemented in full. Equity investors took well to this, pushing US equities up over 7% last week as bond yields fell back.

The size of the stimulus measures we have seen so far this year, both on the fiscal side by governments and the monetary side by central banks, have been extraordinary and are certainly a leading factor in explaining why risk assets, both equities and credit, have recovered so meaningfully since the steep falls in the first quarter. In March, Trump introduced a package in excess of \$2 trillion, equivalent to over 10% of 2019 GDP, to boost the domestic economy which included handing cheques directly to households. To give an extent of its scale, following the financial crisis in 2008, the US fiscal package equated to around 5% of GDP, implemented over a number of years rather than months.

On the monetary side, in March the Fed committed to effectively unlimited Treasury bond purchases to stabilise financial markets – in April it was reported they were buying over \$40bn of assets each day. This has slowed to \$120bn per month at present. Again, to apply some historical context, the central bank’s balance sheet assets grew from around \$900bn to \$2.2trn in the immediate aftermath of the 2008 crisis after its first round of quantitative easing (QE). Over the next six years, two further QE programmes followed taking total assets to \$4.5trn. In response to coronavirus, the Fed’s asset purchase program has seen total assets rise from \$4.2trn to \$7.2trn in just eight months. This underpinning of largely government bonds (but to an extent corporate bonds too having started purchasing these assets for the first time) had kept bond yields rooted lower, which also served to help equities by virtue of a lower discount rate when discounting future cash flows.

There is no doubt stimulus has been key to risk asset recovery and this will continue going forwards. Whilst monetary policy is set to remain very accommodative, there remains uncertainty around future government stimulus in the US. In managing portfolios to client outcomes what matters to us most are valuations and fundamentals. For now, we remain cautious at the top down level on a market dominated by a small cohort of growth stocks with lofty valuations that we think have stretched too far, but optimistic for our active fundamental managers to find upside opportunities in the wider market.

## The Marketplace

- The major global equity index returned +7.7% last week as all regions rallied.
- Joe Biden is on-track to become the 46th president of the US despite expected legal contestation from the Trump administration.
- Brent crude rose 5.3% to \$39.5 a barrel.
- Gold rose 3.9% to \$1951.4 per ounce.

## Market Focus

### US

- US equities rose 7.3% in their best week since April.
- The FOMC kept the federal funds rate unchanged at 0-0.25% while maintaining their bond purchases at \$120bn per month. Federal Reserve Chair Jerome Powell said the current pace of asset purchases remained appropriate for the time being but left open the possibility that the Fed could extend long-term treasury purchases
- Nonfarm payrolls for October came in at a better-than-expected 638K which is also the slowest pace of job growth since the labour market recovery began in May. The unemployment rate fell to 6.9% in October from 7.9% in September.
- Weekly initial jobless claims for the week ending October 31 fell to 751k (vs. 735k expected), down from an upwardly revised 758k the previous week.
- Reported US coronavirus cases have exceeded 100K for the fifth consecutive day. President-elect Joe Biden is expected to announce the launch of a 12-member coronavirus taskforce in response to the pandemic.

### Europe

- European equities rose +7.3% last week.
- German factory orders for September grew by a smaller-

- than-expected +0.5% (vs. +2.0% projected), while Euro-Area retail sales in September also fell by a more-than-expected -2.0% (vs. -1.5% expected).
- Further restrictions and lockdowns started across Europe, with Spain and France introducing stricter measures and Greece entering a new 3-week lockdown
- The European Commission's autumn economic forecast projected a smaller economic contraction this year of -7.8% for the Euro Area (vs. -8.7% predicted in the summer), though they revised down their 2021 forecast to +4.2% (vs. +6.1% previously).

### UK

- UK equities returned +5.9% last week.
- The Bank of England's MPC voted unanimously to increase their asset purchases by a further £150bn, above the consensus expectation for an extra £100bn, and left the Bank Rate unchanged at 0.1%.
- Critical talks between the Prime Minister and the EU are set to resume this week ahead of the November 15th deadline for reaching a free trade agreement after Brexit.
- The Chancellor Rishi Sunak announced further support for affected workers during the pandemic, with the furlough scheme extended until the end of March, which pays workers 80% of their salary. England entered a new one-month lockdown last week.

### Asia/Rest of The World

- Japanese equities rose +5.0% closing the week at a multi-decade high.
- Chinese equities rose +6.0% on hopes of improved Sino-US relations under President Biden
- China's October services PMI reading came in at a solid 56.8 (vs. 55.0 expected) bringing the composite reading to 55.7 (vs. 54.8 last month).
- President Xi Jinping signalled that his long-term vision for the Chinese economy likely requires it to expand at an average pace of less than 5% a year, well below the historical trend over the past 30 years.

Asset Class/Region	Currency	Currency returns			
		Week ending 30 Oct. 2020	Month to date	YTD 2020	12 months
<b>Developed Market Equities</b>					
United States	USD	7.3%	7.3%	9.8%	15.6%
United Kingdom	GBP	5.9%	5.9%	-21.1%	-19.3%
Continental Europe	EUR	7.3%	7.3%	-6.3%	-4.3%
Japan	JPY	5.0%	5.0%	-1.5%	0.3%
Asia Pacific (ex Japan)	USD	6.2%	6.2%	11.8%	16.0%
Australia	AUD	4.4%	4.4%	-5.1%	-4.0%
Global	USD	7.7%	7.7%	6.2%	11.1%
<b>Emerging markets equities</b>					
Emerging Europe	USD	11.5%	11.5%	-28.1%	-25.5%
Emerging Asia	USD	5.9%	5.9%	18.2%	23.6%
Emerging Latin America	USD	11.2%	11.2%	-29.7%	-25.9%
BRICs	USD	6.5%	6.5%	12.3%	18.3%
China	USD	6.0%	6.0%	30.0%	38.4%
MENA countries	USD	1.7%	1.7%	-8.8%	-2.8%
South Africa	USD	13.7%	13.7%	-10.1%	-5.4%
India	USD	6.3%	6.3%	-1.9%	-0.5%
Global emerging markets	USD	6.6%	6.6%	7.6%	12.5%
<b>Bonds</b>					
US Treasuries	USD	0.3%	0.3%	8.6%	8.3%
US Treasuries (inflation protected)	USD	-0.1%	-0.1%	8.9%	9.4%
US Corporate (investment grade)	USD	1.3%	1.3%	7.9%	9.1%
US High Yield	USD	2.1%	2.1%	3.2%	5.4%
UK Gilts	GBP	-0.4%	-0.4%	7.3%	6.4%
UK Corporate (investment grade)	GBP	0.3%	0.3%	5.4%	6.0%
Euro Government Bonds	EUR	0.1%	0.1%	4.9%	3.5%
Euro Corporate (investment grade)	EUR	0.4%	0.4%	2.0%	1.7%
Euro High Yield	EUR	1.6%	1.6%	-1.0%	0.5%
Japanese Government	JPY	0.2%	0.2%	-0.9%	-1.2%
Australian Government	AUD	0.5%	0.5%	5.7%	5.1%
Global Government Bonds	USD	1.2%	1.2%	8.2%	8.3%
Global Bonds	USD	1.2%	1.2%	7.5%	8.1%
Global Convertible Bonds	USD	4.4%	4.4%	17.0%	21.1%
Emerging Market Bonds	USD	2.6%	2.6%	3.4%	7.0%

Asset Class/Region	Currency	Currency returns			
		Week ending 30 Oct. 2020	Month to date	YTD 2020	12 months
<b>Property</b>					
US Property Securities	USD	4.0%	4.0%	-16.8%	-17.1%
Australian Property Securities	AUD	8.2%	8.2%	-11.3%	-14.1%
Asia Property Securities	USD	7.1%	7.1%	-15.2%	-14.4%
Global Property Securities	USD	5.7%	5.7%	-15.3%	-14.1%
<b>Currencies</b>					
Euro	USD	2.0%	2.0%	5.8%	7.4%
UK Pound Sterling	USD	1.6%	1.6%	-0.8%	2.3%
Japanese Yen	USD	1.3%	1.3%	5.1%	5.4%
Australian Dollar	USD	3.6%	3.6%	3.5%	5.7%
South African Rand	USD	4.1%	4.1%	-10.6%	-5.1%
Swiss Franc	USD	2.0%	2.0%	7.5%	10.4%
Chinese Yuan	USD	1.2%	1.2%	5.3%	5.9%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	2.3%	2.3%	-19.0%	-16.9%
Agricultural Commodities	USD	2.0%	2.0%	5.3%	9.6%
Oil	USD	5.3%	5.3%	-40.2%	-36.1%
Gold	USD	3.9%	3.9%	28.1%	31.0%
Hedge funds	USD	1.5%	1.5%	2.9%	5.0%

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