Sanctum Wealth Management

THE BIG PICTURE OF GLOBAL ECONOMICS

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Waiting for News

- **Not just waiting for news on President Trump's health**
- **Market momentum can only be re-established with news of further policy easing**
- **Global economic data is OK but there are fears that a spike of COVID cases could accelerate job losses**
- **Tech and China still have the better support from fundamentals.**
- **Credit markets quite in the absence of accelerating QE**

Investors will have to be patient its going to be a long fourth quarter. Markets are very much in a waiting pattern at the moment waiting for news from many quarters. The health of President Trump is but one of several factors weighing on the markets at present. Most asset markets gave good returns for the third quarter. However, September was much less convincing. Most asset classes posted negative returns for September.

Ever since the excitement of March-April, policymakers around the world have been on more

of a go slow. With no vaccine announced, and a resurgence of the virus in evidence, the global economy appears to be stuttering particularly in the West. A slow economy with little new monetary or fiscal stimulus is not something that is going to excite the markets.

The critical question is whether, in the absence of better news, the markets tumble through their key supports. The S&P 500 at 3386 has key support at 3240, which if it breaks could lead to a set-back two around 3000 some 10% below where we are today. The European markets have less reason to fall; however, in any significant set back the correlation with the US market would be high. Hence investors should keep in mind to the next support below current levels is probably around the 2800 level, again 10% below current levels.

The good news is that the market malaise is more of a drift than a sharp loss of confidence. Economic data is not as good as it was, but it still tells a story of good recovery through the second quarter. However, there is a growing investor fear that in the absence of policy support, there could be a significant loss of momentum at the turn of the year. As we mentioned last week, the global economy, in the absence of a boost significant new fiscal packages could face rising unemployment, a loss of income protection and a fall in industrial confidence. Policymakers would then find themselves trying to underpin a sliding economy rather than supporting good momentum.

For the moment, the economic news is solid. Despite the ending of government support programmes in the US, consumers have continued to spend. One has to believe that hey expect the fiscal package to come at some stage to make them whole on their current overspending/drop in the savings rate. As an example, August car sales were stronger than expected.

Signs of ongoing mass layoffs do concern economists despite the rosy picture in the US from some data. Although US employment data was in line with market expectations (837,000 people filed for unemployment for the first time last week) the market concerned with the trail of announcements of future redundancies – 35,000 airline staff, 28,000 Disney announced last week.

In Europe spikes of COVID19 are forcing at least some further lockdowns. In the UK the number of new COVID cases has doubled in the past week. France had a new daily high of cases at the back end of last week with a threat from the authorities that they would have to lock down Paris again. Germany’s daily infection rate is back up to the levels of April. Limited restrictions have been re-imposed, but nothing like the scale of which we witnessed back in March.

Among eurozone policymakers, the ECB remains slow to react. A speech last week by Ms Lagarde opened the window to a more flexible ECB that targets an average 2% inflation target in the future. However, any such decision will require a thorough debate at the Council and a potential implementation by year-end. As we say… we will wait for news!

The data is particularly strong in China, where retail sales in August moved back to where they were pre-crisis. Industrial profits in August rose over 19% year-on-year, coming off the back of

a similar gain in July. Industrial confidence indicators remain upbeat with new orders and exports, positive spots. The service sector confidence indicator is at the highest level since 2013 reflecting how much the country has been able to re-open

In the equity markets, corporate earnings forecasts are still slow to improve. To be sure they are off their lows, however for the S&P 500, the consensus earnings forecast for the index has risen just 3% over the past three months and the dividend forecast is unchanged since June. For the Eurostoxx and Nikkei index, consensus earnings forecasts have fallen over the same period. Hence the equity market vulnerability in an environment where there is no new news of policy stimulus.

The Nasdaq index is the only major equity index to see a meaningful increase in consensus earnings forecasts with a 14% increase in estimates since June. We continue to believe that any sell-off of the Nasdaq index is less justified given this positive backdrop.

In August, the rally in credit assets stalled. In September, there was evidence of reverses occurring. Losses were due to widening spreads not markedly higher treasury yields. High-grade credit weakened by about 30 basis points in total return terms, with hard currency EM debt down 1.3% and US high yield dropped 1.9%; both due to a drift wider in credit spreads.

For the credit markets in the context of the rest of 2020, despite the losses, September still counts as a quiet month. Considering what may still lie ahead for the credit asset class, the spread moves in September were modest and leaves the market in something of a no-man's land. Merrill Lynch's Indices of US high yield recorded a spread of 541 basis points by the end of the month compared to 361 at the beginning of the year. For the rest of the year, this market will also have to face up the issues of a potentially debilitating virus spike, no visibility yet on further fiscal support, mixed in with the noisiest political storm in living memory.

The markets will be on tenterhooks waiting for news of President Trump after he went into hospital over the weekend. There are too many angles on developments for this note. Suffice to say that the past week has only highlighted that the Presidency is likely to dominate the headlines and sentiment well into next year. There are real concerns that legal experts may have to interpret the constitution to resolve matters that the constitution was never written for. Just a few weeks ago, we were worried about whether all parties would feel that the election was legitimate. Now we find legal experts debating the definition of a 'medically fit' President and what is the hierarchy if the President was incapacitated for any length of time. Maybe President Trump was right. There was a need to "make America great again" because, at this point, it looks far from it.

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