Antipodean Advisory

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October 2020 Market Wrap

Sunday 1 November 2020

In recent weeks we've seen increased market volatility. The Nasdaq, which represents the leading technology stocks in the US market, has seen a pull back following an incredible rally, and markets seem to be in a range-trading pattern.

The much-anticipated upcoming US presidential election is certainly contributing to market volatility. Historically, in the months leading up to US elections, markets have exhibited an increased level of volatility, and it is no different this time. Markets are not political, but they are sensitive to uncertainly, so as we get closer to the election in November, we are likely to see the market gyrate. As to how markets will react to a Republican or Democratic win, history is not conclusive on this, however what has been observed is that in the lead up to an election, avoiding recessions and a positive stock market tend to assist re-election. Senate control is key for markets… if the Democrats win the presidency, control of the Senate would mean the difference between substantial fiscal expansion and fiscal gridlock.

The outcome of the US Presidential election will undoubtedly set off a wave of emotion throughout the world, some good… some bad. However, for investors I believe this week into next is the perfect opportunity to hit the reset button to get back to fundamental work.
Every day that we spend our energy glued to the presidential race is a day closer that Pfizer (PFE), Moderna (MRNA), Johnson & Johnson (JNJ) get closer to a vaccine…which all the sudden feels like it is a must needed shot in the arm (no pun intended) not just for markets, but human society.

The RBA is widely expected to ease monetary policy at its Tuesday meeting, given the commentary by central bank officials in recent weeks, particularly its governor Philip Lowe. Economists widely expect the RBA will cut the cash rate to 0.1 per cent from the already record low of 0.25 per cent, which has stood since March. The central bank will also make the same reduction to its three-year bond yield target rate and its term funding facility rate for banks.

The global economy is gradually recovering after a severe contraction due to the pandemic. However, the recovery is uneven and its continuation is dependent on containment of the virus. While infection rates have declined in some countries, they have increased in others. The recovery is most advanced in China, where conditions have improved substantially over recent months. Globally, inflation remains very low and below central bank targets.

Financial conditions remain accommodative around the world and supportive of the economic recovery. Financial market volatility is low and the prices of many assets have risen substantially despite the high level of uncertainty about the economic outlook. Bond yields are at historically low levels, as are interest rates for most businesses and households. The Australian dollar remains just a little below its peak of the past couple of years.

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The Australian economy experienced a sharp contraction in the June quarter, with output falling by 7 per cent. As difficult as this was, the decline in output was smaller than in most other countries and smaller than was earlier expected. A recovery is now under way in most of Australia, although the second-wave outbreak in Victoria has resulted in a further contraction in output there. The national recovery is likely to be bumpy and uneven and it will be some time before the level of output returns to its end 2019 level.

If you have any questions do not hesitate to contact me.

Stay Safe and Healthy

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-4.27%	-3.09%	-7.14%
Nasdaq	-1.48%	+30.11%	+21.61%
S&P 500	-2.34%	+6.62%	+1.21%
Russel 2000	-0.05%	-3.20%	-7.79%
Europe 600 Index	-5.61%	-14.29%	-17.67%
UK FTSE 100 Index	-5.50%	-26.05%	-23.62%
Hong Kong Hang Seng	+2.76%	-11.05%	-14.48%
Japan Nikkei 225	-0.23%	+0.55%	-2.87%
China Shanghai Composite	+0.20%	+9.00%	5.72%
ASX 200 (Australia)	+1.93%	-11.12%	-9.09%

Australian Dollar

	Close	52 week Range
AUD	0.7170%	0.5512-0.7414%

Government Bonds

	Close	52 week Range
US 3 Month	0.097%	-0.076-1.642%
US 10 Years	0.879%	0.380 – 1.967%
US 30 Years	1.664%	0.692 – 2.44%
Australia 10 years	0.841%	0.570-1.717%

Source: Wall Street Journal.