

## Weekly Market Update (September 28 - October 2, 2020)

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Stocks ended the week on a high with hopes that US Congress will reach a COVID relief bill deal. Attention was back on the virus after President Trump and First Lady Melania Trump had both tested positive for COVID-19 and that they would be going into quarantine.

In the economic front, the U.S. economy added about 749,000 jobs, slowing down in the pace of job gains, the unemployment rate however came in better than expected at 7.9%.

It seems that the economic recovery is entering a slower phase, but low interest rates and fiscal stimulus added onto a gradual improvement in the labour market should provide support.

### Revisiting the Bond Market in a Week of Uncertainty

Last week equities finished down 4%. As we enter the final three months of an unusual year, let us review the 3 market uncertainties investors are currently facing:

#### Uncertainty No. 1: The unpredictability of Covid-19 shapes the economic recovery.

The markets moved lower last Friday with the announcement that President Trump and First Lady Melania Trump tested positive for COVID-19. This news puts the Covid-19 back in the forefront of headlines, and this will probably influence consumers who will be more cautious in returning to normal economic activities with a persistent pandemic.

States across the US are negotiating a balance between continuing a phased reopening of their economies and containing the virus. New cases have dropped to about 40,000 per day last week, which is a drop of about 38% compared to the levels in April when widespread lockdown measures were in effect.

The economic recovery remains vulnerable to the reopening process until a vaccine can be found.

#### Uncertainty No. 2: After a strong third quarter, the economy enters a new phase of positive however slower economic growth.

The last employment report released last week, reported positive news showing good labour-market improvement and negative news showing slowing momentum in job gains.

The economy recovered about 749,000 jobs in September. This was still about 200,000 jobs short of estimates and much weaker than the 1.5 million jobs added in August. State and local government jobs declined however retail, hospitality, and health care saw the largest job gains.

After five consecutive months of job gains, there are still 6.8 million more unemployed workers than in February prior to the pandemic. The latest employment numbers show that the economy will continue to recover in the last quarter of 2020 however at a slower pace, with the sectors most affected by the pandemic set to continue struggling.

### **Uncertainty No. 3: Uncertainty over a new round of fiscal stimulus remains as Republicans and Democrats continue to negotiate a deal.**

The sturdiness of the stock rally over the last six months is partly due to the aggressive fiscal stimulus in the U.S. and other developed economies. To date the federal government has added nearly \$4 trillion in new spending to assist the economy emerge from the worse economic recession since the Great Depression.

With the federal debt reaching its highest levels relative to GDP since World War II, Republicans and Democrats remain divided in how much government support the economy still needs to sustain the recovery.

The Democratic-led House of Representatives passed a \$2.2 trillion Covid bill, edging closer to the \$1.6 trillion plan floated by the White House. If a compromise between the two plans can be reached, it is possible that the economic recovery can be more durable and sustainable this year and into 2021.

On **Monday**, major indexes rose on the backs of the financial and energy stocks. The Dow Jones climbed 1.5%. The S&P 500 rose 1.6%, and the Nasdaq added 1.9%. All 11 of the S&P 500 sectors finished in positive territory; however, the financial and energy sector made the largest gains, adding 2.3% each.

On **Tuesday**, major indexes declined in a uninspiring trading day. The S&P 500 fell 0.5%. The Nasdaq declined 0.3%, and the Dow Jones lost 0.5%. Many traders anticipated the outcome of the debate, with both the energy and financial sectors falling significantly.

On **Wednesday**, the futures market posted gains in the morning and early afternoon. Cyclical sectors performed strongly during this time following the release of better-than-expected economic data and positive news about financial stimulus. By the end of the day, the S&P 500 finished negative for the month but positive for the quarter. The Dow Jones rose 1.2%, and the Nasdaq climbed 0.7%. In sector news, health care, consumer staples, financials, and information technology all rose in daily trading.

On **Thursday**, major indexes rose with the help of technology stocks. The S&P 500 gained 0.5%. The Nasdaq added 1.4%, and the Dow Jones was up just 0.1%. The S&P 500 was up 1% earlier in the day after news of a deal between Republicans and Democratic edged close. However, when later reports dampened these hopes, the index lost some of its steam

On **Friday**, major indexes declined. After news that President Trump was diagnosed with COVID-19, political and economic uncertainty weighed on the market. The S&P 500 was down as much as 1.7%. However, President Trump's diagnosis seemed to have spurred fiscal stimulus discussions. With renewed hope for economic relief, the industrial, energy, materials, financial, and real estate sectors made gains and finished in positive territory. In the end, the S&P 500 closed with a 1% loss for the day.

Time (GMT+3)	Event	Impact
04:30 05.10	NAB Business Confidence	Medium
All	Eurogroup Meetings	Medium
18:00 05.10	ISM Services PMI	High
07:30 06.10	Cash Rate	High
07:30 06.10	RBA Rate Statement	High
12:30 06.10	Annual Budget Release	High
12:35 06.10	ECB President Lagarde Speaks	Medium
16:30 06.10	Trade Balance	Medium
17:00 06.10	ECB President Lagarde Speaks	Medium
18:40 06.10	Fed Chair Powell Speaks	High
16:10 07.10	ECB President Lagarde Speaks	High
22:00 07.10	FOMC Meeting Minutes	High
11:25 08.10	BOE Gov Bailey Speaks	High
16:30 08.10	BOC Gov Macklem Speaks	High
16:30 08.10	Unemployment Claims	Medium
04:30 09.10	RBA Financial Stability Review	Medium
16:30 09.10	Employment Change	High
16:30 09.10	Unemployment Rate	High