

**CANDRIAM** 

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# Markets update



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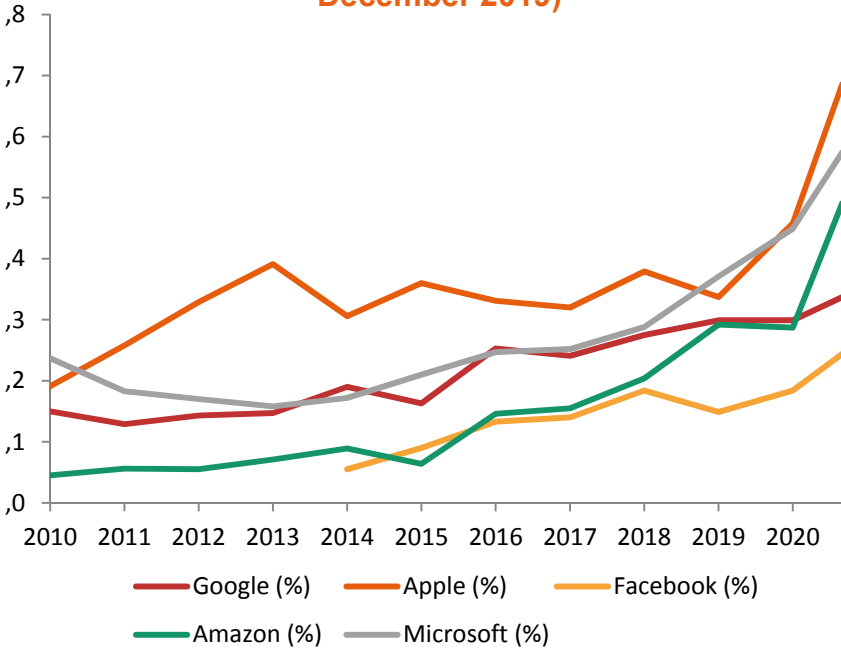
# Widening performance gaps post lockdown easing

The persistence of COVID-19 pandemic has benefited growth stocks and “safe assets”

**Eurozone large caps have performed within a 10% range since June (3100-3400)**



**The concentration of the US market has accelerated over the summer, with the GAFAM stocks representing over 23% of the US market (vs. 17% in December 2019)**

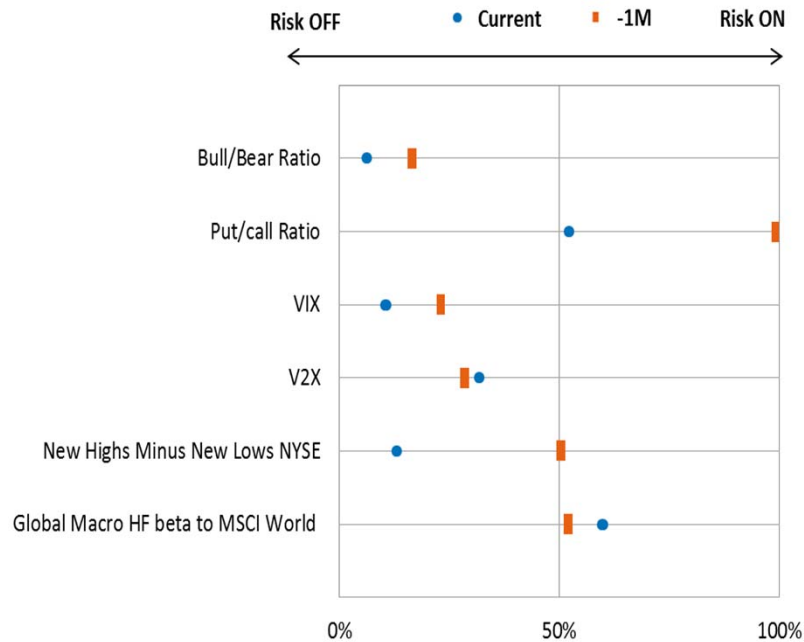


Sources: Bloomberg, Candriam Cross-Asset Strategy

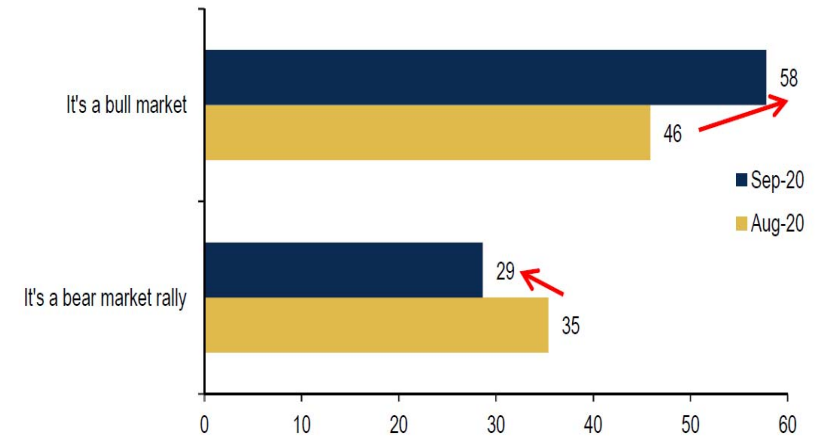
# Investors' sentiment has improved

Sentiment indicators are neither too optimistic nor too pessimistic

## Sentiment indicators show a mixed picture



## A majority of strategists in surveys now believe that the bull market is not over












Source: BofA Global Fund Manager Survey

Sources: Bloomberg, BofA Merrill Lynch, Candriam Cross-Asset Strategy

# Can some gaps be filled?

Conditions for a rotation

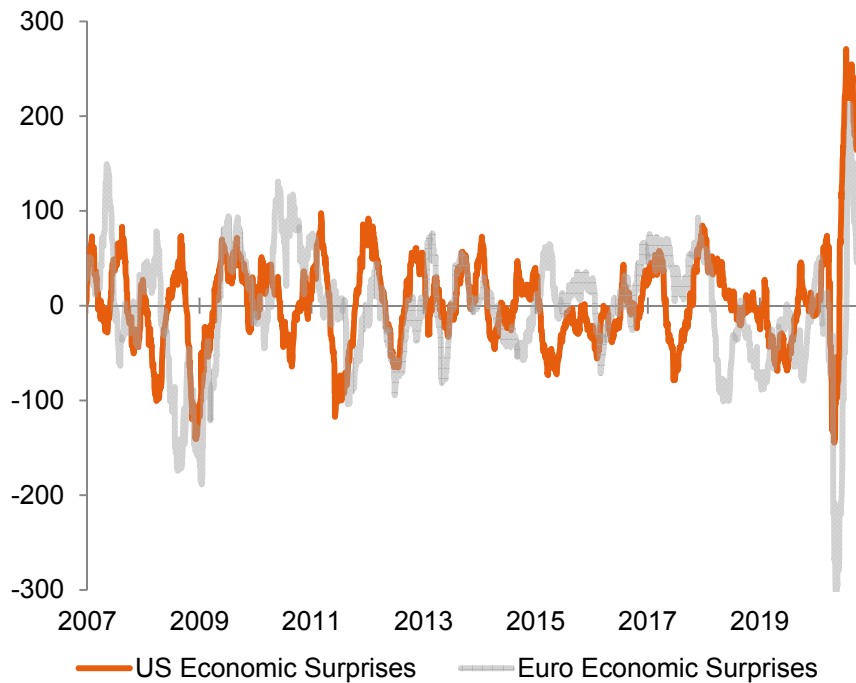
Driver	Assessment	+	-
<b>Economic momentum</b>	The pace of positive surprises is likely to slow down towards the end of 2020, following a V-shaped recovery in Q3. High-frequency data will also continue to drive markets over the short term.		
<b>Covid-19: Vaccine Vs. Second Wave</b>	A new wave of infections in economically vital countries leading to lockdowns would make a strong negative impact. A vaccine made available would be a strong positive factor.		
<b>US elections uncertainty</b>	Volatility around the uncertain outcome of the US elections is a negative factor. Expansionary Macro alignment: higher spending (Biden) vs. lower taxes (Trump) in an accommodative Fed context.		
<b>Direction of interest rates</b>	Real rates have reached a trough (positive), modest steepening could continue. New FOMC policy framework is more negative (lower rates for longer).		
<b>Strong momentum and relative valuation</b>	Growing valuation (and performance) gap between Momentum / Growth and Value.		

Sources: Candriam Cross-Asset Strategy

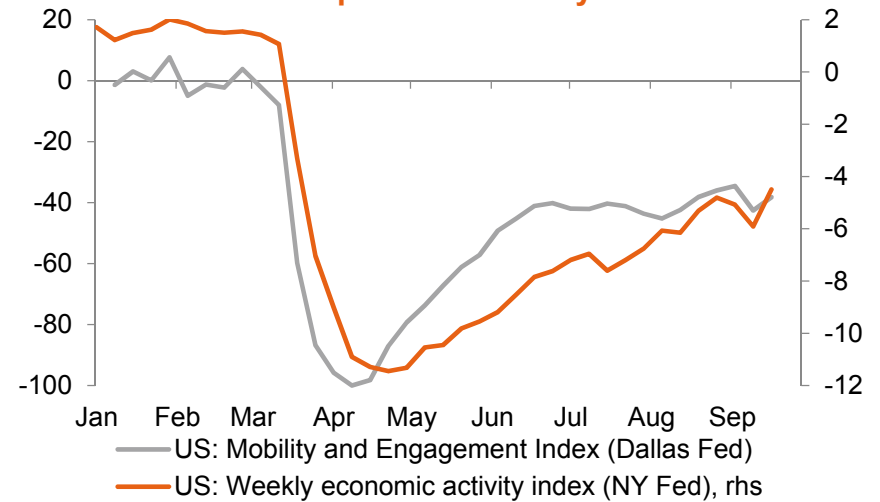
# After a strong rebound in Q3, economic indicators should stabilise in Q4

Economic surprises indices have rolled over, high frequency data to drive short-term performance

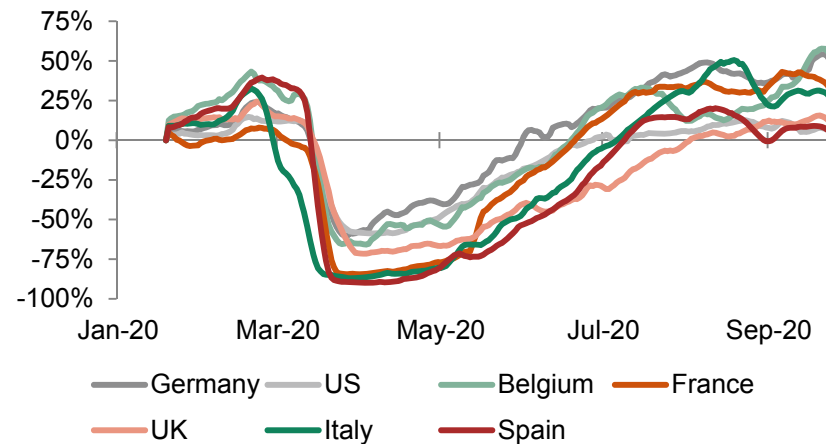
As economic scenarios have now priced in the pandemic's impact, we will see fewer positive surprises in the US and Europe



High frequency indicators can be used to assess the speed of recovery



Apple mobility trends show a situation close to pre-Covid levels in Europe this summer



Sources: Bloomberg, Apple Mobility trends, Candriam Cross-Asset Strategy

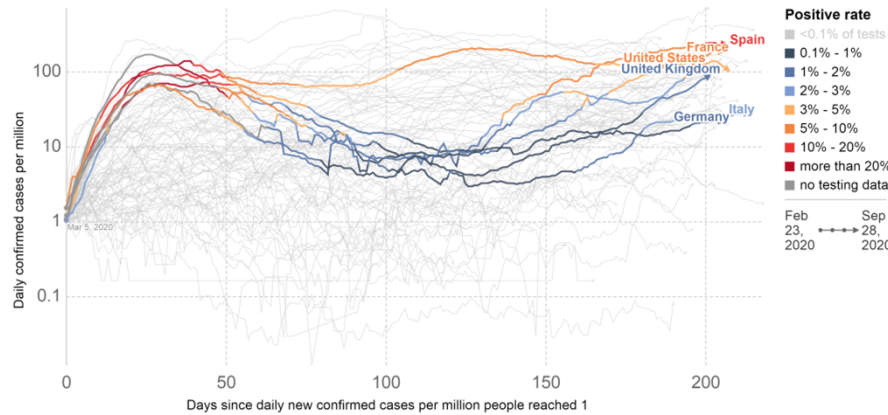
# Waiting for a vaccine or an efficient treatment

Markets remain caught between the threat of the second wave and hope for a vaccine

## While the US situation is improving, Europe is now facing a rapid rise in COVID-19 cases

### Daily new confirmed cases of COVID-19 per million people

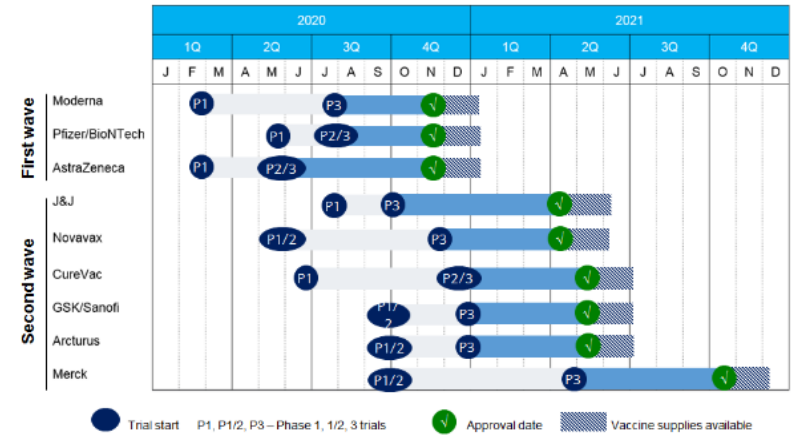
The line is blue when the rate of positive tests in a country is low – this means a country performs many tests relative to the size of the outbreak. Red indicates a high positive rate of tests. This suggests that the true number of infections may be far higher than the number of confirmed cases.



Source: European CDC – Situation Update Worldwide – Last updated 28 September, 10:05 (London time), Official data collated by Our World in Data  
 Note: Only countries for which testing data is available are included. Details about this data can be found at [OurWorldInData.org/coronavirus-testing](https://OurWorldInData.org/coronavirus-testing).  
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## Three COVID-19 vaccines could be approved by the end of 2020

Figure 1. COVID vaccine timelines across candidates

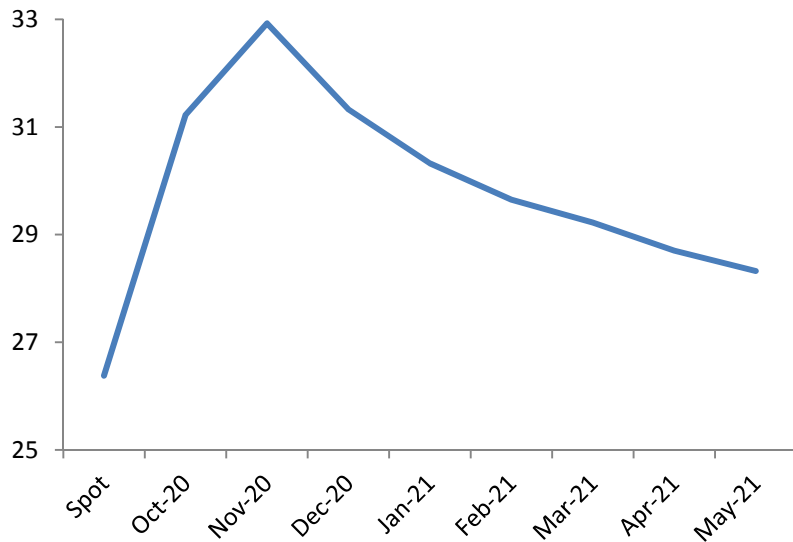


Sources: Barclays, Candriam Cross-Asset Strategy

# US Elections, another game changer?

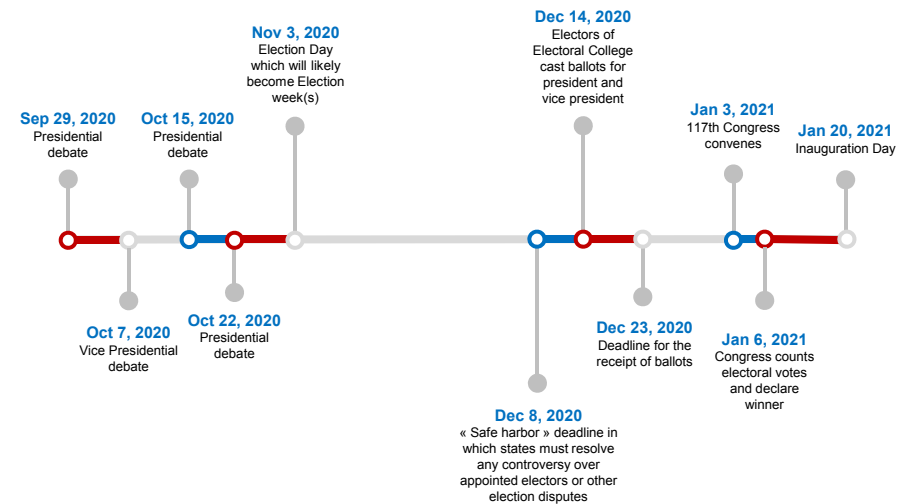
Uncertainty around the US election results is largely priced in

**Futures Curve on expected volatility of the S&P 500 (VIX)**



**Vote counting and audits of elections results could prolong the uncertainty until the end of the year**



## US political timeline



Sources: Bloomberg, Candriam Cross-Asset Strategy

# Who will be President? What kind of Congress? Unity or deviousness?

The impact on the global economy and markets is an equation with several unknowns

	Election of Joe Biden 	Re-election of Donald Trump 
<b>Election programme</b>	<b>His programme may produce significant reversals on the domestic market.</b>	<b>On the basis that his election programme is the same as in 2016</b>
	Joe Biden's election will be more destabilising for the US domestic market than for the rest of the world. There will be considerable economic support, but it will be applied differently: tax rises, minimum wage increases, infrastructure investment plans, taking the climate and more sustainable development into account. The healthcare sector is also a major divergence point, and the move towards deregulation is likely to stop.	Domestic policy will be marked by a certain continuity, with the key points of tax cuts, continued deregulation and restrictions on immigration. His policies would avert regulatory risks for companies in the oil and health sectors.
<b>What impacts can we anticipate on the markets?</b>	US international relations will be able to regain a more traditional and less chaotic footing, with the return of multilateralism. In this scenario, the strategic, economic and trade dialogue with Europe would be re-established.	Foreign policy remains the main cause of uncertainty, although we still anticipate less multilateralism and a strong line with China.
	The sectoral impact on the US domestic market will probably be greater. It will be positive in the infrastructure and transport sectors, renewable energies and more generally on issues relating to sustainable development. Conversely, the impact will be more negative on healthcare and energy (oil and gas).  Non-US assets could benefit from more constructive and less chaotic relations. Europe and emerging countries are unlikely to see their performance negatively impacted by unpredictable political risk.	Foreign policy was destabilising for non-US assets during the President's first mandate. Risky assets in China, emerging countries and Europe could suffer as a result of US protectionist pressures, as has been the case over the past four years. Political risk will continue to be a key factor for the financial markets.  On the US domestic market, the re-election of Donald Trump could favour a reduction in the risk premium on the energy and healthcare sectors.

Sources: Candriam Cross-Asset Strategy



# A blue wave would first make an impact with the domestic market

Equity sector impact of a blue wave Vs. continuity of current policy

Performance TR USD	Trump mandate	Obama last mandate
	08 Nov 16 - 25 Sep 20	06 Nov 12 - 07 Nov 16
<b>MSCI USA</b>	<b>56.6%</b>	<b>62.1%</b>
<b>Energy</b>	<b>-54.7%</b>	<b>2.7%</b>
<b>Materials</b>	<b>30.6%</b>	<b>40.4%</b>
<b>Industrials</b>	<b>31.5%</b>	<b>67.1%</b>
Capital Goods	16.6%	66.3%
Commercial & Professional Services	77.6%	75.5%
<b>Consumer Discretionary</b>	<b>105.1%</b>	<b>77.6%</b>
Automobiles & Components	146.4%	48.2%
Consumer Durables & Apparel (Luxury Goods)	46.4%	41.2%
Consumer Services	43.0%	60.0%
Retailing	149.8%	105.4%
<b>Consumer Staples</b>	<b>18.8%</b>	<b>64.7%</b>
Food & Staples Retailing	48.9%	55.5%
Food, Beverage & Tobacco	-2.7%	77.7%
Household & Personal Products	49.6%	44.2%
<b>Healthcare</b>	<b>54.3%</b>	<b>82.7%</b>
Equipment	79.1%	91.5%
Pharmaceuticals	38.9%	78.2%
<b>Financials</b>	<b>16.4%</b>	<b>63.3%</b>
Banks	-0.3%	56.4%
Diversified Financials	37.9%	64.0%
Insurance	9.7%	75.7%
<b>Technology</b>	<b>152.8%</b>	<b>81.7%</b>
Software & Services	144.3%	91.0%
Hardware	186.2%	55.5%
Semiconductors	127.6%	123.2%
<b>Communication Services</b>	<b>32.7%</b>	<b>30.0%</b>
Media	68.4%	76.8%
<b>Utilities</b>	<b>17.8%</b>	<b>56.9%</b>

Alternative Energy (2trn USD investment in renewables) Vs. Old Energy

Biden to expand Medicaid and ACA, lower Medicare eligibility age – impact will depend on the composition of Congress. Major Pharma have 50% exposure outside the US.

A potential Democratic victory has raised concerns about taxes and regulations, and would have the strongest impact on that sector (banks, brokers, asset managers).

Support anti-trust legislation

Sources: Bloomberg, Candriam Cross-Asset Strategy

# Is there any impact outside the US?

Non-US assets could benefit from more constructive and less chaotic politics

Performance TR	08 Nov 16 - 25 Sep 20	06 Nov 12 - 07 Nov 16
<b>S&amp;P 500</b>	<b>54%</b>	<b>63%</b>
<b>Eurostoxx 50</b>	4%	38%
<b>FTSE 100</b>	-15%	34%
<b>MSCI Emerging markets</b>	17%	-1%
<b>MSCI China</b>	53%	16%
<b>Nikkei</b>	35%	105%
<b>DAX 30</b>	19%	42%
<b>CAC 40</b>	6%	47%
<b>FTSEMIB</b>	11%	21%
<b>IBEX</b>	-26%	36%
<b>SMI</b>	32%	30%

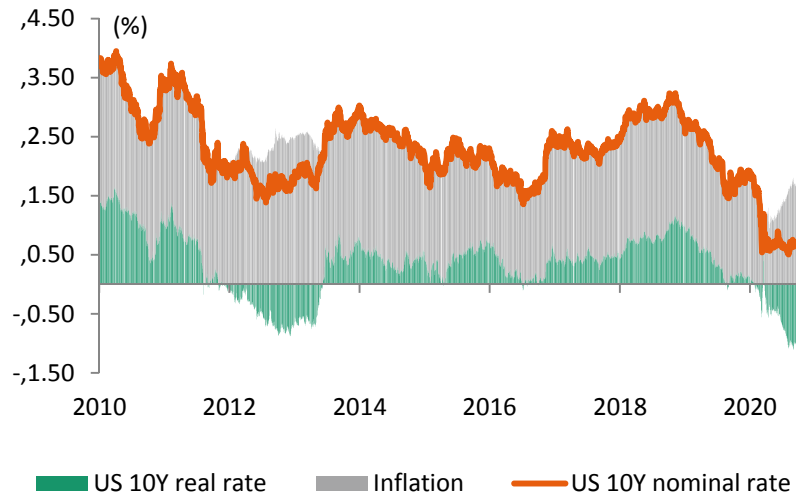
Europe suffered the most during Trump's mandate

Sources: Bloomberg, Candriam Cross-Asset Strategy

# Direction of interest rates, key for a possible rotation

Acceleration of "momentum" trades supported by the historical decrease of US real rates

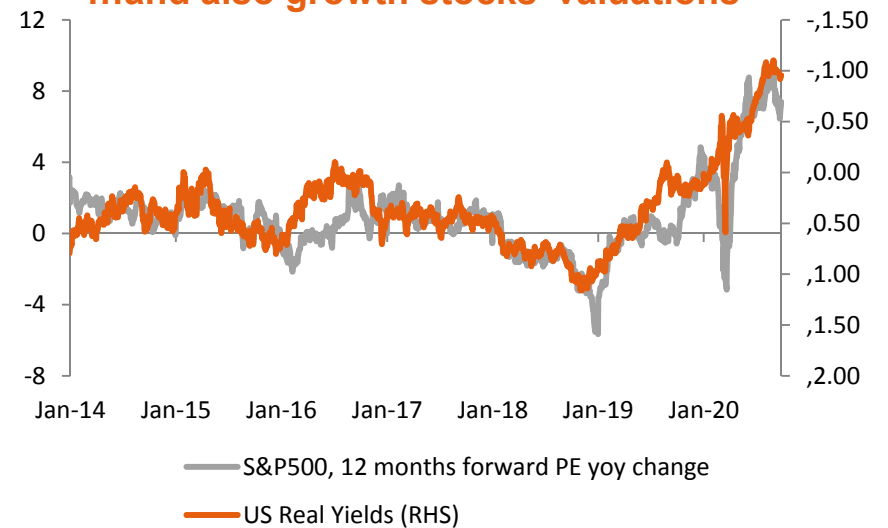
**Rise in inflation expectations and compression of nominal rates led to a historical decrease in US real rates**



**This powerful trend in US real rates has benefited gold...**



**...and also growth stocks' valuations**

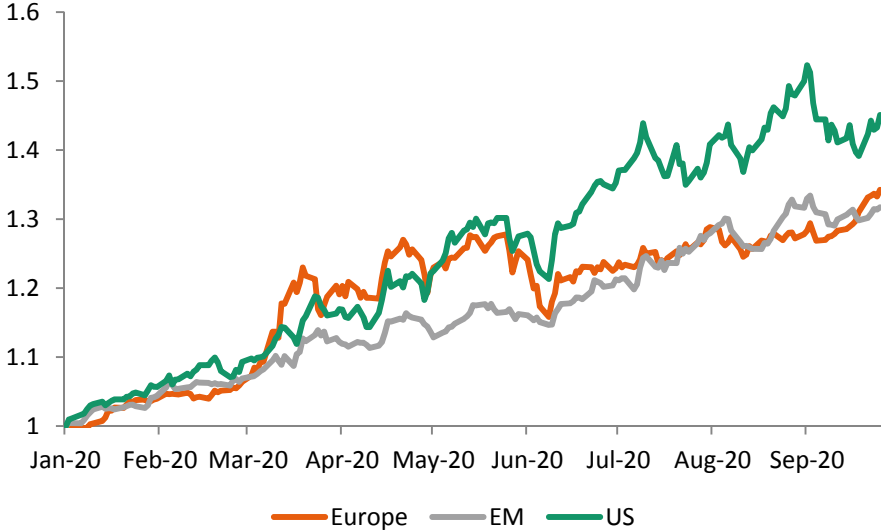


Sources: Bloomberg, Candriam Cross-Asset Strategy

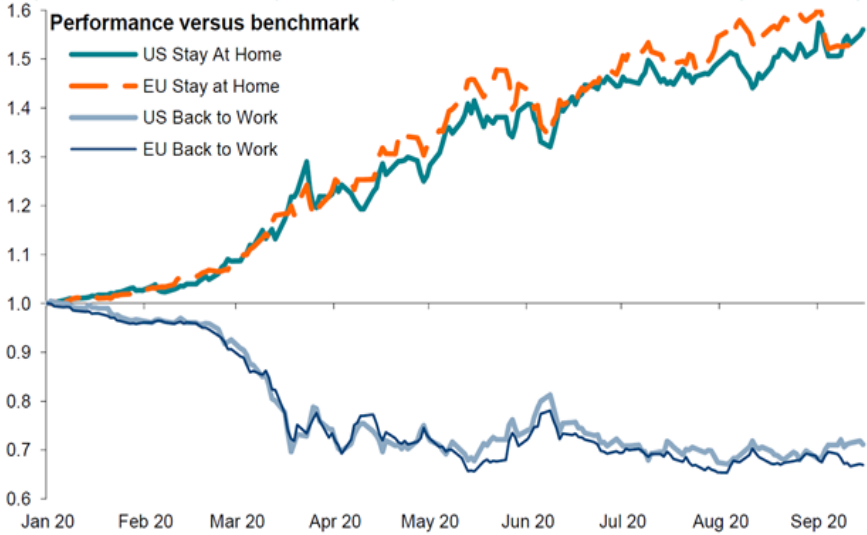
# A possible comeback of unloved stocks?

There is a risk of reversal in the life "after COVID-19"...

Evolution of "growth" style performance relative to "value" YTD 2020: a gap of between 30% and 40%...



...the contrast is even stronger between companies that have benefited from the pandemic ("stay at home") and companies that are severely hit ("back to work")

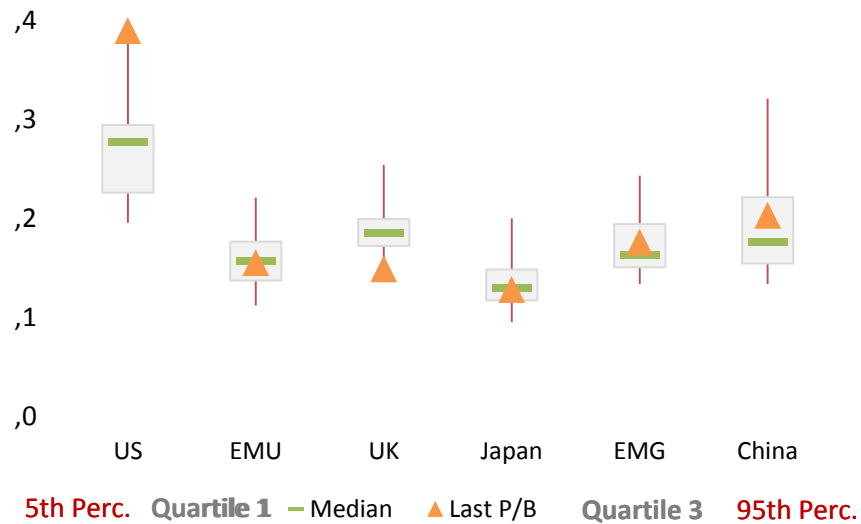


Sources: Bloomberg, Exane BNP Paribas, Candriam Cross-Asset Strategy

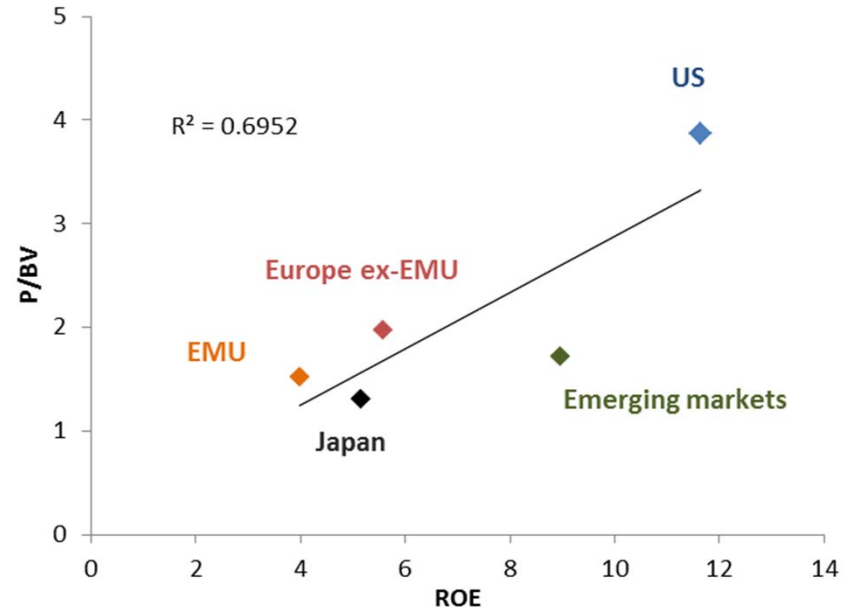
# Equity valuations not excessive if we discount a cyclical rebound

Valuations remain correlated to profit growth

Equity Valuations: Price to Book Value compared to last 20 years data



US equities have done best this year, while Eurozone equities were the most negatively impacted

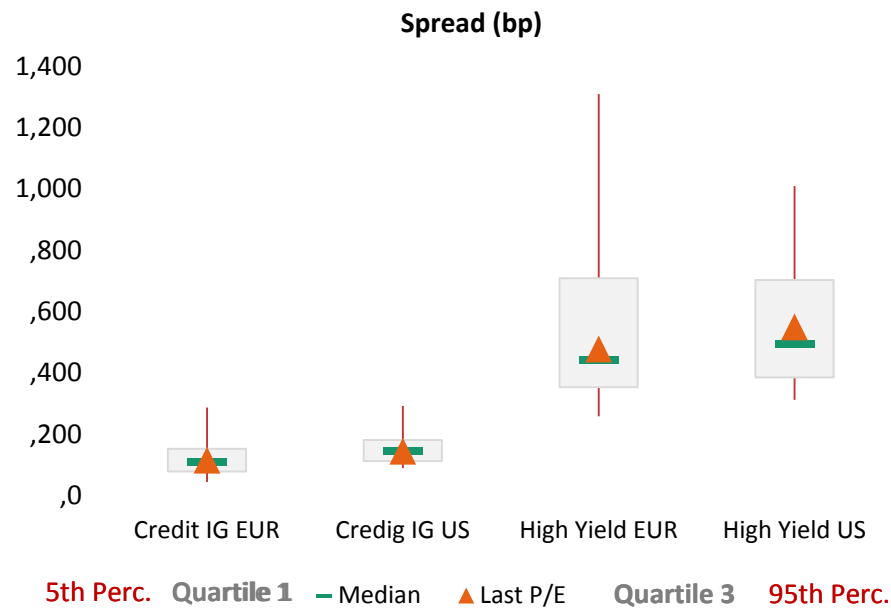


Sources: Bloomberg, Candriam Cross-Asset Strategy

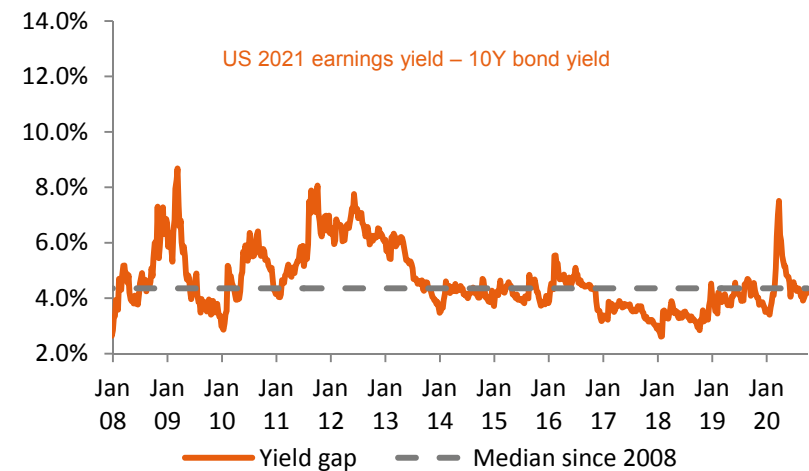
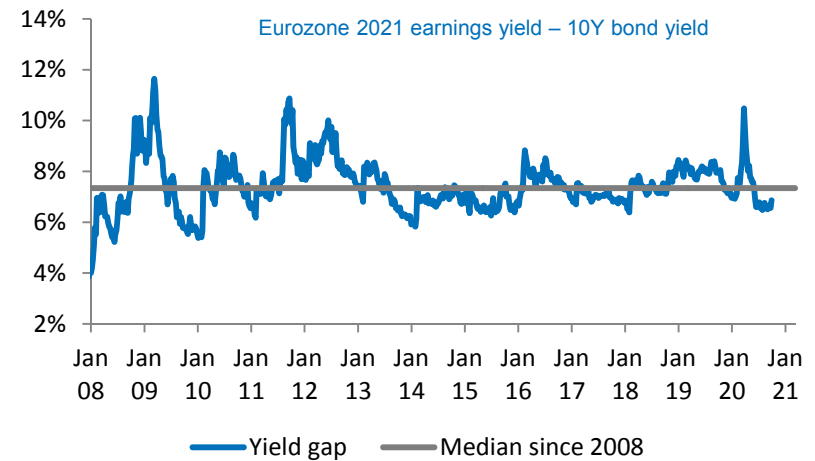
# Credit and equity valuations are now close to their historical median

The upside of Eurozone equity valuations dependant on the decrease of the (political) risk premium

## Credit spreads are close to their median historical levels (over the last 20 years)



## Equity relative valuation to bonds now closer to its median since 2008



Sources: Bloomberg, Candriam Cross-Asset Strategy

# Cross-Asset views

## Q4 key messages



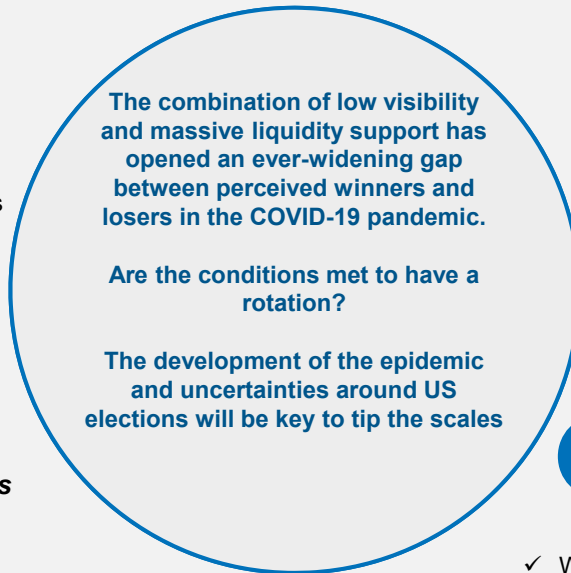
### **Momentum or Rotation?**

- ✓ US real rates falling to all-time lows this summer helped “growth” stocks
- ✓ There is no consensus today: we can find arguments for or against a possible rotation.
- ✓ Could early-September Nasdaq correction be a wake-up call and trigger a rotation?
- ✓ How far can the wash-out on Momentum stocks go?



### **Economic recovery is broadening out but the momentum could stall towards year-end**

- ✓ Economic recovery on track
- ✓ Fewer positive economic surprises expected after hitting historical highs earlier in 2020
- ✓ Real rates have stopped their decline
- ✓ High frequency data (mobility, job market, services, consumer comfort,...) are holding up so far
- ✓ A new US fiscal stimulus would be a significant support



### **COVID-19 and US election result will be the key drivers to tip the scales**

- ✓ The new wave of infections in economically vital countries leading to lockdowns would be a strong negative factor
- ✓ A rapid vaccine announcement would be a strong positive factor
- ✓ Volatility around US election date is discounted by markets
- ✓ Once the election dust settles: there is a macro alignment on expansionary policy: higher spending (Biden) vs. lower taxes (Trump) in a context of an accommodative Fed



### **Portfolio implications (tactical)**

- ✓ We hedge our equity positions through options
- ✓ We maintain our Gold and Yen exposures as portfolio hedges
- ✓ We retain our exposure to a structural reduction of the Eurozone risk premium: Overweight Eurozone VS. US equities.
- ✓ We remain neutral on UK equities, which have lagged the rebound and should benefit from better economic data and a better control of the epidemic
- ✓ We maintain our Chinese A-Shares equities exposure and remain overweight emerging markets and underweight Japan.
- ✓ We start looking at contrarian trades: market impact of a vaccine / treatment / rapid tests.

Sources: Candriam Cross.Asset Strategy

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