

“When the winds of change blow, some people build walls and others build windmills”

Unknown

Summary

In 1948, as the campaign kicked off, Harry S. Truman’s approval rating had fallen to 36%, and polls had him trailing his opponent Thomas E. Dewey by almost 15 points. On the night of the election, news organizations called the election for Dewey before all votes had been counted. The Chicago Daily Tribune was so sure Dewey would win, that the newspaper brushed off close early returns and printed 150,000 copies of its first edition with the (now) infamous headline “DEWEY DEFEATS TRUMAN.” The morning brought confirmation. Truman had defied the predictions and won the election with 303 electoral votes to Dewey’s 189.

So can President Donald Trump do a Truman and prove the pollsters wrong again as he did in 2016? Has he taken a leaf out President Truman’s 1948 Playbook?

The parallels to the 1948 US elections are striking and while Trump may not admit it, he has in fact taken a leaf out of the Truman playbook. Truman was serene while the pollsters, scribes, Democratic establishment and most of his campaign staff were certain he would meet a crushing defeat on Election Day. The same can be said of Trump and his 2020 campaign. Truman had an unshakable conviction that the issues he had been pushing will lead him to victory and same can be said of Trump. The Trafalgar Group - the only pollster to correctly show Trump with a lead in Michigan and Pennsylvania in 2016 heading into the Election Day- now indicates that Trump is now ahead in Pennsylvania, Florida, Michigan, North Carolina and Biden has a razor-thin lead in Wisconsin. So beware of pollsters and their sweeping predictions. Those who have written off Trump could be in for a rude awakening next Tuesday.

The curious thing is at least on recent evidence, financial markets do not seem to differentiate between a Democrat or a Republican in the White House. Perhaps it’s because the man in the White House at 1600 Pennsylvania Avenue is not in control of the economy as much as the person in the Eccles Building, at 20th Street and Constitution Avenue - the Chairman of the Federal Reserve. It’s all been one big monetary policy-driven market ever since the Great Financial Crisis (GFC) of 2007. Under President Barack Obama, the three best-performing sectors were Consumer Discretionary, Technology and Healthcare. Under Trump, the three best-performing sectors have been Technology, Consumer Discretionary, and Healthcare. Under Obama, the two worst-performing sectors were Financials followed by Energy. Under Trump, the worst performers were the same.

US election 2020: Will Trump do a Truman?

For weeks and even months now, very few in the mainstream media and political commentariat have had anything positive to say about President Trump and even fewer still consider his re-election a possibility. Some are even predicting that the Democrats will win the White House, the Senate as well as retain control of the House of Representatives. That would be a clean sweep and full control of both the Legislative and the Executive branches of the US government.

Just a few days ago, *The Financial Times* ran a headline - "US investors pivot to 'blue wave' as odds favour Biden." Those views relied on polls that are showing Trump trailing nationally by double digits, an insurmountable lead.

Yet, these are no ordinary times and pollsters have been consistently wrong in recent times - Trump 2016, Brexit, UK General Elections 2019 to name but a few. If the pollsters get it wrong again, then that may be the end of the "polling industry" as we know it. Pollster Frank Luntz remarked - "If Trump defies polls again, my profession is done. I hate to acknowledge it, because that's my industry - at least partially - but the public will have no faith. No confidence. Right now, the biggest issue is the trust deficit."

In 1948, on the eve of the Presidential election, polls had Republican challenger Thomas E. Dewey leading the Democrat President Harry S. Truman by 5-6 points. *The New York Times* predicted Dewey would get 345 electoral votes and Newsweek predicted 366 votes.

On the night of the election, news organizations called the election for Dewey before all votes had been counted. The Washington correspondent of *The Chicago Daily Tribune* was so sure Dewey would win, that the newspaper brushed off close early returns and printed 150,000 copies of its first edition with the (now) infamous headline "DEWEY DEFEATS TRUMAN."

That night, Truman had a glass of milk and went to bed early. Awakened at 4:30 am, he was told he would likely win—and went back to sleep. The morning brought confirmation. Truman had defied the predictions and won the election with 303 electoral votes to Dewey's 189. He had beaten Dewey by more than 2 million votes and swept all but a handful of farm states and the West.

I love the morning-after photo (see below) of President Truman holding a copy of *The Chicago Daily Tribune* and beaming. It made for a great picture and one of the most famous political photographs in American history. Dewey went to bed as President-Elect and woke up the loser and, today, very few other than political anorak know of Dewey.

On November 2, 1948, President Truman pokes fun at the expense of his least favourite newspaper, Chicago Daily Tribune



Source: Truman Library Institute

So can Trump do a Truman and prove the pollsters wrong again as he did in 2016? Has he taken a leaf out of President Truman's 1948 Playbook?

The parallels to the 1948 US elections are striking and while Trump may not admit it, he has in fact taken a leaf out of the Truman playbook.

In 1948, a month before the election, nine out of 10 US newspapers (including *The New York Times*) endorsed Dewey. Certain of a Dewey landslide, one pollster even stopped polling by September. The influential *Newsweek* magazine took a poll of 50 political writers about the likely outcome of the 1948 election. When the issue appeared, Clark Clifford, then an aide to Harry Truman, tried to hide the copy under his coat. Truman discovered the magazine, saw that all 50 pundits were predicting Thomas E. Dewey to be the winner, and said, "I know every one of these 50 fellows. There isn't one of them has enough sense to pound sand in a rat hole." There's no love lost between Trump and the US mainstream media as you will know and "fake news" is the most polite of disdain that Trump has for them.

As the campaign kicked off, Truman's approval rating had fallen to 36%, and polls had him trailing Dewey by almost 15 points. Trump has suffered a similar fate.

Truman was serene while the pollsters, scribes, Democratic establishment and most of his campaign staff were certain he would meet a crushing defeat on Election Day. The same can be said of Trump and his 2020 campaign.

Truman had an unshakable conviction that the issues he had been pushing and would push—affordable health insurance for all, raising the minimum wage, aid to education, civil rights, resistance to Stalinist Russia and storage for farmers' surplus crops—would trump Dewey's a low-risk campaign. Similarly, Trump has pursued and campaigned on policies that he thinks poll well with the people and will get him elected - tax cuts, law and order, China, energy/fracking and the Supreme Court to name a few. In

contrast, Biden has run a low-risk campaign hoping to keep his lead, “play safe” and sail into the White House. Biden’s leisurely campaign in car parks resembles more a coffee shop talk. Trump’s campaign is frenetic and resembles an actual political rally dwelling on differences with his rival.

Truman had a revolutionary campaign plan – he would tirelessly crisscross the country from Labour Day to election eve in his private railroad car, the ornate Ferdinand Magellan, talking unscripted to voters from dawn to midnight. Trump is doing the same. He is campaigning with full ferocity just like Truman did in 1948. Fresh off recovering from coronavirus, Trump has scaled the length and breadth of the country displaying energy and vitality in doing as many as three rallies a day. Trump has upped the ante last few days by highlighting Biden’s flip-flop and controversial statements by playing videos of them on a giant screen at his rallies. Trump dances off stage to the Village People’s “YMCA” as the rallies wrap up. You just have to see his campaign and listen to his speeches to see the reception he gets compared to Biden.

A Trump rally in progress



Source: votedonaldtrump.com

In 2016, Robert Cahaly, senior strategist for the Trafalgar Group, made a name for himself by being the only pollster to correctly show Donald Trump with a lead in Michigan and Pennsylvania – two key states he carried – heading into the Election Day. In 2018, Cahaly’s method once again proved solid. In one of the most polled races of the cycle, Trafalgar stood alone as the only polling firm to correctly show a Ron DeSantis gubernatorial victory in Florida – as well as Rick Scott winning the Senate race there.

So what does Trafalgar say now?

In the key battleground of Pennsylvania, the Trafalgar polls have moved in favour of Trump over the last four weeks. On Tuesday, Trafalgar group indicated that President Trump is now ahead in Pennsylvania (Trump 48.4, Biden 47.6). This same poll had Biden 3 points ahead a month ago and 6 points ahead in July/August. Trafalgar poll also indicates President Trump is ahead in Florida, Michigan, North Carolina and Biden has a razor-thin lead in Wisconsin.

So beware of pollsters and their sweeping predictions. Those who have written off Trump could be in for a rude awakening next Tuesday.

Markets and the Economy

Investors spend so much time analysing US elections. Is it worth it?

Yes, there's a difference in style and substance between the candidates but what does the outcome mean for risk assets?

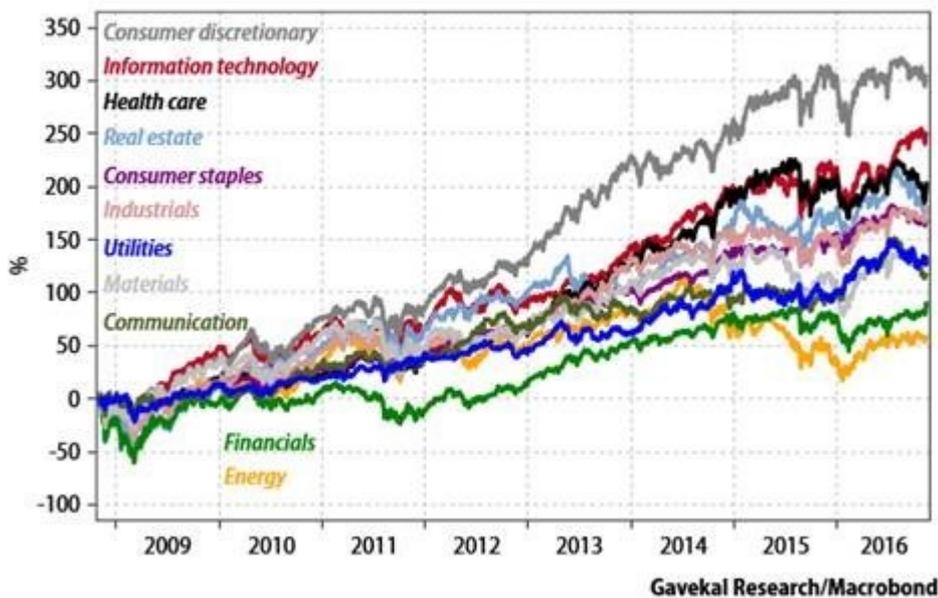
The curious thing is at least on recent evidence, financial markets do not seem to differentiate between a Democrat or a Republican in the White House. Perhaps it's because the man in the White House at 1600 Pennsylvania Avenue is not in control of the economy as much as the person in the Eccles Building, 20th Street and Constitution Avenue - the Chairman of the Federal Reserve. It's all been one big monetary policy-driven market ever since the Great Financial Crisis (GFC) of 2007.

Numbers crunched by our research providers Gavekal Research indicate:

- Equities, as measured by the S&P 500, delivered roughly the same return during the President Barrack Obama years as under Trump: +12.38% annualized for Obama and +13.87% for Trump.
- Long-dated bonds delivered positive returns in the Obama years of +6.85%, and even better positive returns in the Trump years of +9.85%

The change of presidents made little difference...

Total returns from 11/04/2008 to 11/08/2016



...to the US stock market's sector return ranking



- Under Obama, the three best-performing sectors were Consumer Discretionary, Technology and Healthcare. Under Trump, the three best-performing sectors have been Technology, followed by Consumer Discretionary, and then Healthcare (charts above)
- Under Obama, the two worst-performing sectors were Financials followed by Energy. Under Trump, the worst performers were the same
- Trump's promises to "make America great again," bring manufacturing jobs home, and impose tariffs on China etc., didn't do any good for the Industrials sector. Industrials finished in sixth place, just as they did under Obama
- Trump years were all about deregulation yet the financial sector returns did not get a boost. Financials finished second to last again as under Obama. Fed's zero-rate policy and flattening the yield curve, sucked the life out of financial earnings
- Energy returns were bad in the Obama years, known for stringent regulations and climate change curbs, but at least they were positive. In the Trump years, we saw regulatory burdens slashed and Trump pulling the US out of the Paris Accord, yet Energy was the only sector to deliver negative returns

What it means is that the structural and market forces are much more powerful and long-lasting once they take shape. A country's political leadership may think it has control, but it may not despite its best intentions and efforts.

My recommendation is to focus on large secular trends: The big wave and not to get lost in the ripples which can be exciting and you may think you have figured everything - out only to be swept away when the big wave arrives.

Benchmark Equity Index Performance (2019 & YTD)

Ticker	Name	Country	Price	2019 Performance (USD)	2020 Year-to-Date Performance (USD)
CCMP Index	NASDAQ COMPOSITE	US	11,005	35.2%	22.6%
SHCOMP Index	SHANGHAI SE COMPOSITE	China	3,273	17.7%	11.4%
NIKKEI Index	NIKKEI 225	Japan	23,332	20.9%	2.8%
SPX Index	S&P 500 INDEX	US	3,271	28.9%	1.2%
MXEF Index	MSCI EM	Emerging Markets	1,121	12.9%	0.5%
MXIN Index	MSCI INDIA	India	1,363	22.0%	-4.5%
INDU Index	DOW JONES INDUS. AVG	US	26,520	22.3%	-7.1%
DAX Index	DAX INDEX	Germany	11,598	22.7%	-8.4%
HSI Index	HANG SENG INDEX	Hong Kong	24,587	11.5%	-13.2%
SX5E Index	Euro Stoxx 50 Pr	Europe	2,961	24.8%	-17.3%
CAC Index	CAC 40 INDEX	France	4,575	26.4%	-19.9%
FTSEMIB Index	FTSE MIB INDEX	Italy	17,941	25.4%	-20.1%
UKX Index	FTSE 100 INDEX	Great Britain	5,585	12.1%	-27.4%
IBEX Index	IBEX 35 INDEX	Spain	6,437	12.4%	-29.5%
IMOEX Index	MOEX Russia Index	Russia	2,689	15.8%	-31.1%
MXTR Index	MSCI TURKEY	Turkey	1,301,433	24.3%	-38.0%
IBOV Index	BRAZIL IBOVESPA INDEX	Brazil	95,369	34.6%	-42.3%

Source: Bloomberg

The big trend of tech stocks and China stocks doing well has continued as the table above indicates and it has more legs to go, especially the latter as Europe and the US still struggle with controlling Covid-19.

In last month's Market Viewpoints, I warned: "of a volatile 4-6 weeks period ahead, as we see the pre and post-US election events play out". With the elections less than a week away, we are truly in the midst of a volatile period which has seen the S&P 500 suffer a -8% sell-off from its mid-October highs. I, however, continue to be bullish on equities and see the sell-off as an opportunity to "buy the dip." My favourite sectors to pick stocks from -Consumer Staple (XLP) and Consumer Discretionary (XLY) as well as Tech (XLK) and Communications (XLC)

Benchmark US equity sector performance (2019 & YTD)

Ticker	Name	Country	2019 Performance	2020 Year-to-Date Performance
XLK US Equity	TECHNOLOGY SELECT SECTOR SPDR	US	47.9%	21.6%
XLY US Equity	CONSUMER DISCRETIONARY SELECT SECTOR SPDR	US	26.7%	15.8%
XLC US Equity	COMM SERV SELECT SECTOR SPDR	US	29.9%	9.5%
XLB US Equity	MATERIALS SELECT SECTOR SPDR	US	21.6%	0.8%
XLV US Equity	HEALTH CARE SELECT SECTOR SPDR	US	17.7%	0.7%
XLP US Equity	CONSUMER STAPLES SELECT SECTOR SPDR	US	24.0%	-0.8%
XLU US Equity	UTILITIES SELECT SECTOR SPDR	US	22.1%	-2.8%
XLI US Equity	INDUSTRIAL SELECT SECTOR SPDR	US	26.5%	-8.1%
XLRE US Equity	REAL ESTATE SELECT SECTOR SPDR	US	24.7%	-12.1%
XLF US Equity	FINANCIAL SELECT SECTOR SPDR	US	29.2%	-23.3%
XLE US Equity	ENERGY SELECT SECTOR SPDR	US	4.7%	-53.8%

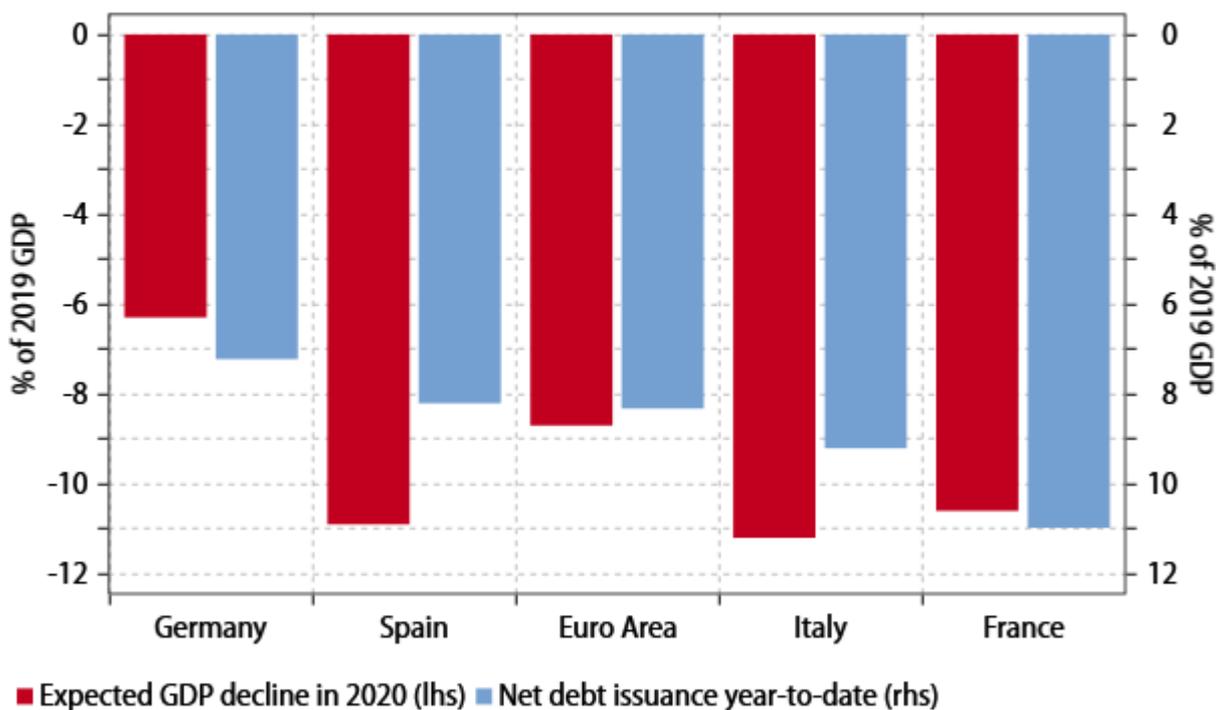
Source: Bloomberg

In Europe, it's batten down the hatches time as France and Germany announced new lockdowns last night. A national lockdown, which will begin Friday and last at least one month, will require the French people to remain inside their homes while restaurants, bars and shops, deemed nonessential, will close. German Chancellor Angela Merkel said the country's Federal and State governments had agreed to a one-month shutdown of restaurants, bars, fitness studios, concert halls and theatres, starting November 2. Hotels are barred from hosting tourists until the end of November, she said, and public gatherings will be limited to 10 people from two households and schools will remain open. Tough measures but not a complete lockdown.

The virus spread we are seeing now in Europe was the spread that didn't happen in May-June because Europe imposed a complete lockdown. Lockdowns are an easy approach, but it will not help prevent the spread of the virus. Without a vaccine or wide enough immunity, every time lockdown is lifted the spread will increase, as we are seeing now. We will have to shield the most vulnerable, take all precautions and live with the virus until a vaccine is found.

Germany and France have issued enough debt to cover their slumps...

Forecast 2020 GDP decline and net YTD debt issuance as of August 2020, relative to 2019 GDP



Gavekal Research/Macrobond

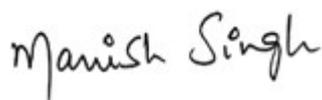
The restrictions from Eurozone's two biggest economies - Germany and France are not good news for the Eurostoxx 50 (SX5E) Index. However, I see this as an opportunity to start building long positions in SX5E. Every iteration of the lockdown will be less severe as economic costs add up rapidly. The re-opening therefore will continue. Besides, governments are compensating businesses and workers for lost earning, so consumer spending is unlikely to take a big hit.

As the charts above show, Germany and France have borrowed lavishly relative to the size of the GDP

downturns they are forecast to sustain this year. Meanwhile, Italy and Spain, which the European Commission forecasts will suffer deeper downturns, have borrowed less relative to the depths of their slumps. The roll-out next year of disbursements from the EU's planned recovery fund will help offset some of the pain for Italy and Spain.

For specific stock recommendations, please do not hesitate to get in touch.

Best wishes,



Manish Singh, CFA

“It is too difficult to think nobly when one thinks only of earning a living.”

-Jean-Jacques Rousseau

Summary

The number of Covid-19 cases is on the rise globally, but thankfully the rate of death is far lower than the levels we saw in March-April this year. I do not see the “second wave” getting worse to the point that we see a widespread economic lockdown. Lockdowns don’t make the problem go away. You have to unlock sooner or later and then the infection spread accelerates again as it has now. Every country that locked down without having a strategy for what came next, followed medieval superstition, not science. Well done to Sweden for actually having a strategy. Shutting down an economy is not the way to deal with Covid-19. Protecting the vulnerable, practising safe measures and letting the non-vulnerable (who vastly outnumber the vulnerable) get on with their lives is a much better way.

The sell-off in equities during the last two weeks now seems to be behind us. However, October will be a very volatile month as we get closer to the November 3 US elections. The overall trend for US equities is still to the upside. “Don’t Fight the Tape” is still in place from a long-term perspective. With the recent comments coming out of the US Fed indicating that they do not expect fiscal stimulus, for now, expect the Fed to issue more aggressive forward guidance that will keep flattening the yield curve. How many equity investors are willing to lock in their money for a +0.66% return for 10 years in US Treasury bonds? I suspect, not many and that can mean only one thing – with nowhere to go to generate income, investors will continue to take more risk and pile into equities.

Covid-19 “second wave”?

September saw the equity markets hit an air pocket – fear of a second Covid-19 wave, a lack of urgency

on the part of the US policymakers to pass a new stimulus bill, the risk of a disputed election ahead and an overly valued technology stocks.

As if that were not turbulence enough, last week, communication by the US Federal Reserve (Fed) raised market anxiety that it may be out of ammunition.

As a result, the S&P 500 index (SPX) fell by -10% at one stage, before recovering some of the losses during the last few trading sessions.

S&P 500 (SPX) Index: 2-month price chart



Source: Bloomberg

Let's look at the concerns one-by-one and begin with the biggest: A Covid-19 "second wave."

The number of cases is indeed on the rise globally, but thankfully the rate of death (chart below) is far lower than the levels we saw in March-April this year. This is not to say that the numbers cannot go higher, but at the same time the health-care system continues to have significant spare capacity and this gives countries some time to stabilise and reduce cases before the health system becomes overwhelmed.

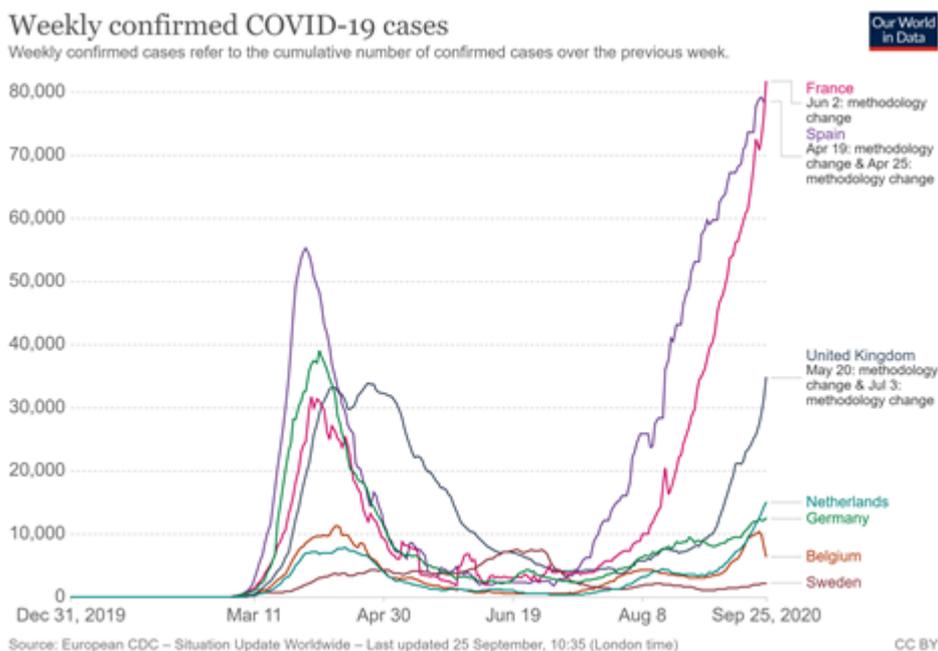
I do not see the "second wave" getting worse to the point that we see a widespread economic lockdown. Lockdowns don't make the problem go away. You have to unlock sooner or later and then the infection spread accelerates again as it has now. I don't like to call it "the second wave," it's more a resumption of the first wave.

Every country that locked down without having a strategy for what came next, followed medieval superstition, not science. Well done to Sweden for actually having a strategy. Sweden relied on precedent. They learnt from what had previously been done in response to pandemics. They let the virus circulate amongst the healthy population at a "controlled rate" using sustainable and targeted safe

distancing measures that didn't cripple the economy. Sweden is not having similar levels of flare-ups as Spain, France or the UK (chart below). The UK started off doing what Sweden did, but abandoned the approach very early on due to relentless criticism from a hostile media and those opposed to UK Prime Minister Boris Johnson.

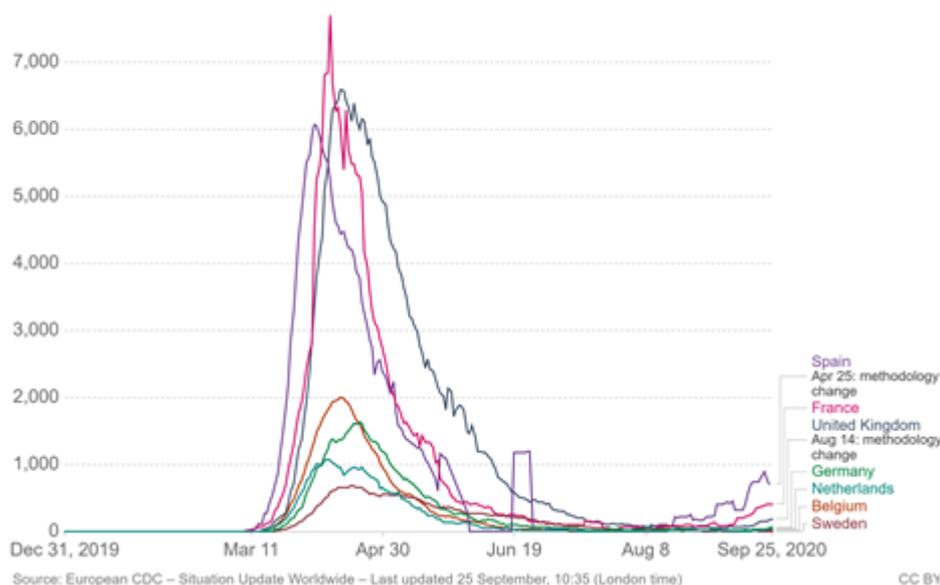
Precautions yes, protection of the vulnerable absolutely but economy-destroying lockdowns? Clearly, no. The public is being blamed for the Government's failings and short-sightedness across Europe so far and Sweden is being deliberately overlooked as it only highlights those failings. While the UK and other nations focus on "number of death's," in Sweden the focus has been more on life and what makes it worth living and realising that opening and shutting down an economy is not the way to deal with Covid-19. Protecting the vulnerable, practising safe measures and letting the non-vulnerable (who vastly outnumber the vulnerable) get on with their lives is a much better way.

Weekly confirmed Covid-19 cases and deaths



Weekly confirmed COVID-19 deaths

Weekly confirmed deaths refer to the cumulative number of confirmed deaths over the previous week.



Additionally, the number of deaths should not be looked at in isolation. Here are the statistics for the daily death rate in the UK (as reported in The Sunday Times recently): Cancer 450, Dementia and Alzheimer's 214, Coronary Heart diseases 180, Stroke 99, Flu and Pneumonia 29, Covid-19 17, Accidents at home 16, and Road accidents 5. Therefore, the death from Covid-19 is about same as that from accidents at home and represents 4% of the daily deaths from Cancer, which as a disease sadly is going undiagnosed due to the disruption to normal health services.

Second, the next stimulus bill better known as Coronavirus Aid, Relief, and Economic Security Act' (CARES) II is not dead as the markets feared last week, and the Democrats are preparing a new proposal. The Republicans are unlikely to agree to the \$3.5 trillion bill the House passed in May and the White House has indicated it could support spending as much as \$1.5 trillion. Monday evening, the House Democrats released a \$2.2 trillion coronavirus relief package that would restore \$600 weekly jobless benefits that expired in July, and include another round of direct checks to Americans, at \$1,200 per taxpayer and \$500 per dependent according to the text. The package would also extend the Paycheck Protection Program (PPP), which expired in August, leaving more than \$130 billion in funding unused. A vote is possible later this week. Centrist Democrats are concerned by the optics of a failure by Democrats to pass a bill, with the elections less than a month away, have been pressuring Speaker Nancy Pelosi to put forward another aid bill, even if it is smaller than the bill the House passed in May.

Third, the sell-off in technology stocks seems to have abated, and it was a welcome relief, given the lofty valuations reached in a very short time. I am still underweight tech stocks and wouldn't look to add to the sector this side of the election.

Lastly, the risk of a disputed election is probably the most disruptive risk lying ahead for markets and volatile times are upon us, as evidenced by the performance of equities in September. If your investing horizon is greater than 12-months, then I wouldn't worry about cutting any long positions, as any election driven volatility is likely to be resolved by Q1 2021, if not before. I believe President Trump will to win and there will be many opportunities ahead in the equity markets as he looks to lower taxes, spend and

cut regulations. However, given the importance of postal ballots in this election, if the results were delayed, the very short term moves in the market could be quite violent and not conducive to the health of any short-term trades in the portfolio.

Markets and Economy

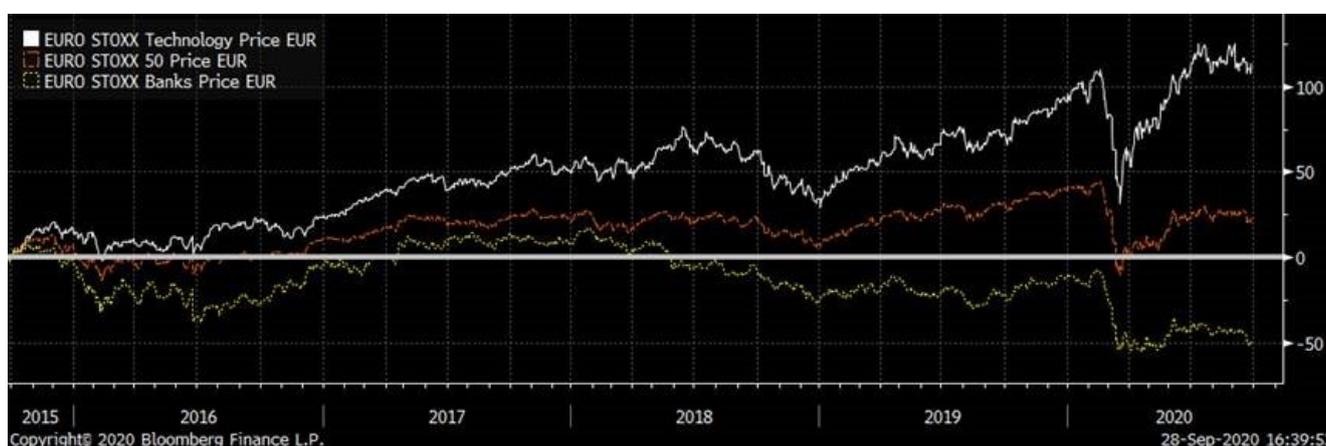
Before discussing equity market performance, I would like to share an important update.

Europe's blue-chip index, the Eurostoxx 50 (SX5E) which serves as a key benchmark for European equity portfolios as well as an important underlying index for structured products and futures trading is changing, and changing for good.

The last few years has seen the underperforming stocks (banks primarily) - Generali (G IM), UniCredit (UCG IM), Deutsche Bank (DBK GY), E.On (EOAN GY), Saint-Gobain (SGO FP), Unibail-Rodamco (URW NA), Société Générale (GLE FP), BBVA (BBVA SM) fall out of the index and be replaced by companies in the technology, retail and chemical sectors such as - Adidas (ADS GY), Amadeus IT (AMS SQ), Linde (LINU GY), Kering (KER FP), Deutsche Boerse (DB1 GY), Adyen (ADYEN NA), and Prosus (PRX NA).

This rebalancing away from financials, which now represent under 5% of the index (down from a peak of over 20% in 2010), is good for the index and for investors tracking the index via passive funds or structured products. The European bank stocks index (SX7E) is still down nearly -90% from its June 2007 high, whereby over the last 5 years Eurostoxx Tech index (SX8E) has outperformed the SX7E by +165% (see chart below)

Eurostoxx 50 (SX5E), Eurostoxx 50 Technology (SX8E) and Eurostoxx Banks (SX7E): 5-year price chart



Source: Bloomberg

Surging technology and healthcare stocks are increasing their influence over European stock markets, as the role of car and energy companies gets reduced. This tilt away from “old economy” sectors like banks, cars and energy companies and the move towards “new economy” sectors such as technology and healthcare will serve the index well. In the SX5E, technology is now the largest sector at 15% and with healthcare, together add up to 25% of the index.

Moving on to US markets, despite the pullback last week, US stocks continue to outperform the rest of

the world -except China and the tech-heavy NASDAQ Composite - (see table below)

Benchmark Equity Index Performance (2019 & YTD)

Ticker	Name	Country	2019 Performance (Lcl Ccy)	Year-to-23 March 2020 Performance (Lcl Ccy)	23 March 2020 to Today Performance (Lcl Ccy)	2020 Year-to-Date Performance (Lcl Ccy)
CCMP Index	NASDAQ COMPOSITE INDEX	US	35.2%	-23.5%	61.6%	23.5%
SHCOMP Index	SHANGHAI SE COMPOSITE	China	22.3%	-12.8%	21.0%	5.5%
SPX Index	S&P 500 INDEX	US	28.9%	-30.7%	49.1%	3.2%
NKY Index	NIKKEI 225	Japan	18.2%	-28.6%	37.3%	-2.0%
MXIN Index	MSCI INDIA	India	8.5%	-36.0%	52.5%	-2.4%
DAX Index	DAX INDEX	Germany	25.5%	-34.0%	46.4%	-3.4%
INDU Index	DOW JONES INDUS. AVG	US	22.3%	-34.9%	47.7%	-3.8%
MXEF Index	MSCI EM	Emerging Markets	15.4%	-32.0%	41.0%	-4.1%
IMOEX Index	MOEX Russia Index	Russia	29.1%	-26.0%	29.2%	-4.4%
MXTR Index	MSCI TURKEY	Turkey	20.0%	-26.0%	18.9%	-12.1%
SX5E Index	Euro Stoxx 50 Pr	Europe	24.8%	-33.6%	29.0%	-14.4%
HSI Index	HANG SENG INDEX	Hong Kong	9.1%	-23.0%	8.4%	-16.6%
IBOV Index	BRAZIL IBOVESPA INDEX	Brazil	31.6%	-45.0%	47.2%	-19.1%
FTSEMIB Index	FTSE MIB INDEX	Italy	28.3%	-33.8%	22.2%	-19.1%
CAC Index	CAC 40 INDEX	France	26.4%	-34.5%	23.2%	-19.4%
UKX Index	FTSE 100 INDEX	Great Britain	12.1%	-33.8%	18.2%	-21.7%
IBEX Index	IBEX 35 INDEX	Spain	11.8%	-34.8%	7.6%	-29.8%

Source: Bloomberg

The sell-off of the last two weeks now seems to be behind us. However, as I pointed out in the section above, we will see more volatility as we get closer to the November 3 election. October will be a very volatile month, although the overall trend for US equities is still to the upside.

“Don’t Fight the Tape” is still in place from a long-term perspective, as the S&P 500 index (SPX) remains in a bull market and within its long-term uptrend channel. Besides the Fed’s regime of “lower for longer” is positive for equities.

With the recent comments coming out of the Fed indicating that they do not expect fiscal stimulus, for now, expect the Fed to issue more aggressive forward guidance that will keep flattening the yield curve and that can mean only one thing - with nowhere to go to generate income, investors will continue to take more risk and bid up equities.

Equity bears have been so wrong for so long but it doesn’t stop them from incessantly predicting the next correction, every time they see a -5% pull back. Meanwhile, the SPX keeps notching new highs.

Investors value equities with reference to a “risk-free rate”- the 10 Year US Govt bond (USGG10) yield to put it simply. When you buy equities, you take into account the return you would get compared to the return you are foregoing by not investing in “risk-free” asset. The Question is - do I buy Microsoft (MSFT US) or the US 10Y bond?

The Yield on the US 10y bond is currently +0.66% (in comparison, the SPX dividend yield is +1.83%). During the last two big equity sell-offs in 2007 and in 2000, the USGG10 yields were +5% and over +6% respectively (see chart below).

S&P 500 index, US 10 Year Treasury yield: 20-year price chart



Source: Bloomberg

At that time, if you felt nervous about stock valuations, you could say to yourself - well, equities look expensive/speculative and moving to US Govt bonds offering a risk-free return of +5-6% seems a good bet. When enough people did that in response to any scare, you had a deep correction.

Now, how many equity investors are willing to lock in their money for a +0.66% return for 10 years? I suspect, not many.

It's better to have blue-chip stocks in the portfolio that pay a dividend and give you an "option" on future earnings, than to get stuck with a bond with +0.66% yield for 10 years. Of course, all of this can change if the Fed indicates it is looking to raise interest rates, but we've just been told by the Fed that "interest rates will have to stay near zero through 2023."

A reflation trade will eventually come and when it comes it will very likely be slow and steady and well preannounced and telegraphed, given how carefully the Fed has been managing the messaging. In the present circumstances, if you still have to hold a bond, please hold a majority of floating-rate bonds and not long duration fixed-rate bonds.

I continue to be bullish on equities with consumer stocks - both Staple (XLP) and Discretionary (XLY) are my favourite sectors to pick stocks from. I however, warn of a volatile 4-6 weeks period ahead, as we see the pre and post-US election events play out.

Benchmark US equity sector performance (2019 & YTD)

Ticker	Name	Country	2019 Performance	Year-to-23 March 2020 Performance	23 March 2020 to Today Performance	2020 Year-to-Date Performance
XLK US Equity	TECHNOLOGY SELECT SECTOR SPDR	US	47.9%	-23.2%	64.4%	26.2%
XLY US Equity	CONSUMER DISCRETIONARY SELECT SECTOR SPDR	US	26.7%	-30.2%	66.6%	16.2%
XLC US Equity	COMM SERV SELECT SECTOR SPDR	US	29.9%	-24.8%	47.2%	10.7%
XLB US Equity	MATERIALS SELECT SECTOR SPDR	US	21.6%	-37.6%	64.3%	2.6%
XLV US Equity	HEALTH CARE SELECT SECTOR SPDR	US	17.7%	-26.7%	39.1%	1.9%
XLP US Equity	CONSUMER STAPLES SELECT SECTOR SPDR	US	24.0%	-22.8%	30.2%	0.6%
XLI US Equity	INDUSTRIAL SELECT SECTOR SPDR	US	26.5%	-40.1%	58.3%	-5.3%
XLU US Equity	UTILITIES SELECT SECTOR SPDR	US	22.1%	-30.5%	31.0%	-8.9%
XLRE US Equity	REAL ESTATE SELECT SECTOR SPDR	US	24.7%	-34.2%	37.8%	-9.3%
XLF US Equity	FINANCIAL SELECT SECTOR SPDR	US	29.2%	-42.6%	34.5%	-22.8%
XLE US Equity	ENERGY SELECT SECTOR SPDR	US	4.7%	-60.7%	27.5%	-50.0%

Source: Bloomberg

The rally in EUR/USD seems to be over for now and the weakness will help the Eurozone stocks as will a let-up in Covid-19, which will most definitely come. On a 12-month basis and also bearing in my mind the changes we have seen in the SX5E index (as outlined above), I would recommend the SX5E as a buy.

We have also seen a -20% sell-off in Silver and an over -10% sell-off in Gold this month. As I've pointed out in the past and on my email updates - a reflation trade will come, but not so soon. Investing in Gold is insurance and be prepared for the volatility and sharp moves. It's best to buy Gold on pullbacks and accumulate a 5-10% holding in a portfolio, over time, for a rainy day and forget about it until the rainy actually arrives.

For specific stock recommendations, please do not hesitate to get in touch.

Best wishes,



Manish Singh, CFA

“Buy when everyone else is selling and hold when everyone else is buying. This is not merely a catchy slogan. It is the very essence of successful investments.”

-Jean Paul Getty

Summary

Despite a record contraction in US GDP during the second quarter of 2020, the S&P 500 Index hit a new all-time high. So why this rally when the economy is in a downturn? Well, the stock market is not the economy. The US stock market is less service driven than the US economy and Covid-19 hit the services

economy much harder than it hit manufacturing. The US stock market is also more global, while the US economy, as you would suspect, is more local. Demand for US made goods, particularly technology, has continued to be strong despite the pandemic. The US stock market is also more investment driven while US economy is more consumption driven. Capital investment which increasingly is supported by higher and higher technology spend, has been hit far less than the hit to consumer spending. Finally, equity returns are driven by surprises relative to the expectations. Whether positive or negative, surprises have a big impact on equity returns. Covid-19 turned sentiment very negative. However, unprecedented government stimulus combined with optimism among investors about the world's ability to manage the pandemic have been the positive surprises, that have lifted equity markets.

Now that the SPX has erased all its losses from the Covid-19 meltdown, where do we go from here?

In my view, the risk is still to the upside, albeit, technology stocks look overvalued and could be in for a short term reversal. As equity sector returns indicate, besides the technology and the communications sectors (and a few consumer discretionary stocks such as Amazon), most sectors are still barely positive for the year. Most importantly, fiscal stimulus is still in place and more is to follow as the CARES II deal takes shape in the US. The Federal Reserve still seems concerned with the plethora of unknowns that could stall, or in the worst case, exacerbate the downward pressure on growth. It will be a very long time before interest rate increases are discussed, let alone actually raised. At the last Federal Open Market Committee (FOMC) meeting, most officials didn't expect to raise interest rates at least through 2022.

The Stock Market is not the Economy

US GDP contracted by \$1.8 trillion (an annualised rate of -32.9%) during the second quarter of 2020. The collapse was unprecedented in its speed and severity. Yet, we saw the S&P 500 Index (SPX) hit a new high. The SPX has now rallied by more than +50% from its March lows (see chart below).

Although meant as a tongue-in-cheek remark, it's often said that "a bubble is a bull market in which you don't have a position." There's something frustrating in seeing someone other than yourself make all the gains as you sit on the side lines. So, you do the only thing that comes to mind - call the whole thing a bubble, wait for a correction and pray. Of course, in doing so, you risk doubling your pain, as the rally continues and, after a point, you finally decide to throw in the towel and join in. We saw something of the sort last week.

S&P 500 (SPX) Index - 12 month price chart



Source: Bloomberg

In the August month BAML Global Fund Manager Survey (FMS) - a monthly report that canvasses the views of approximately 200 institutional, mutual and hedge fund managers around the world - investors finally agreed that we were no longer in a “bear market rally.”

The survey, released on the same day the SPX hit record highs, found that investors were now most bullish on equities, since the start of the Covid-19 induced market sell-off that started in late February.

The August survey also noted that 79% of the survey respondents said they believed global growth over the next 12 months would be positive, representing the highest reading since December 2009. This is a dramatic turnaround from the June month FMS survey, where 78% of the participants said the stock market was “overvalued.” The SPX is up +10% since then.

So why this rally when the economy is still in a downturn? Well, the stock market is not the economy.

Below is an interesting chart from Eddy Elfenbein editor of the Crossing Wall Street blog. On the x-axis is the annual change in US GDP from 1970-2019 and on the y-axis is the corresponding stock market return. As you may note, the results look like a random scatter diagram, without any correlation. How can this be?



- The SPX is less service driven than the US economy. Goods-producing firms make up 44% of the SPX whereas manufactured goods comprise just 29% of US GDP. Covid-19 hit the services economy much harder than it hit manufacturing. Many of the services are still in the doldrums, whereas manufacturing has shown a healthy recovery.
- The SPX is more global, while US GDP, as you would suspect, is more local. Approximately 43% of the sales of the SPX are derived internationally, while US exports in the GDP calculation make up only 12%.
- The SPX is more investment driven while GDP is more consumption driven. Capital investment which increasingly is supported by higher and higher technology spend, has been hit far less than the hit to consumer spending due to widespread lockdown of avenues to spend – airlines, restaurants, retail, etc. As a result, the SPX has been more resilient to the pandemic.
- Equity returns are driven by surprises relative to the expectations. Whether positive or negative, surprises have a big impact on equity returns. Covid-19 turned sentiment very negative. However, unprecedented government stimulus combined with optimism among investors about the world’s ability to manage the pandemic have been the positive surprises that have lifted the equity markets. Writing the [March month market viewpoints](#) on March 23, 2020 where I made a case for – the market having bottomed. I wrote- “The bear case for equities ...are also the very arguments for how the bull case for stocks starts. Fear is indeed palpable but it’s also the reason to start buying.” Looking back now, it all looks so prophetic.

Most things in economics and markets are relative and not absolute. When sentiment gets too bearish (as it did in March), I always countenance - do not ignore the reaction function. Those that turned bearish even when the SPX was at 2,300, were not taking into account the fiscal reaction that was to follow during an election year. The Trump administration was quick to compare the pandemic to a war, so it seems fitting it oversaw levels of stimulus and borrowing last seen in World War II, and the bears were caught on the wrong side of the trade.

Markets and the Economy

The Dow Jones Industrial Average (DJIA) is getting a makeover.

Salesforce (CRM), Amgen (AMGN) and Honeywell International (HON) will join the DJIA replacing Exxon Mobil (XOM), Pfizer (PFE), and Raytheon (RTN) respectively. Exxon, which joined the index in 1928 as Standard Oil of New Jersey, has been the longest-tenured member of the DJIA. While Amgen and Honeywell are like-for-like replacements, Salesforce, a technology company replacing Exxon, an oil major, after Exxon's 92 years in the DJIA, is a sign of the times.

Tech companies are not just tech companies just as Amazon is anything but a "bookseller." Tech companies are the retailers (Apple, Amazon), transporters (Uber, Lyft), healthcare providers (Teladoc, Livingo), bankers (Square, Paypal, Ant) and so many other things. They are present everywhere and in every sector of the economy.

Just to underscore this point and the importance of tech and big data stocks, 2020 has been a case of the have and have nots (see equity sector chart below). There was a time, not long ago, when Energy (XLE) and Financials (XLF) were considered the life-blood of a capital intensive economy. However, these two sectors have been deemed irrelevant by the market in the current work-from-home world, where interest rates are close to zero and money is practically free. Instead, Communications, Technology, and Consumer/Retailer stocks with a strong online infrastructure, are the ever-important sectors of the economy.

Benchmark US equity sector performance (2019 & YTD)

Ticker	Name	Country	2019 Performance	Year-to-23 March 2020 Performance	23 March 2020 to Today Performance	2020 Year-to-Date Performance
XLK US Equity	TECHNOLOGY SELECT SECTOR SPDR	US	47.9%	-23.2%	73.4%	33.2%
XLY US Equity	CONSUMER DISCRETIONARY SELECT SECTOR SPDR	US	26.7%	-30.2%	70.9%	19.2%
XLC US Equity	COMM SERV SELECT SECTOR SPDR	US	29.9%	-24.8%	57.3%	18.2%
XLV US Equity	HEALTH CARE SELECT SECTOR SPDR	US	17.7%	-26.7%	44.4%	5.8%
XLP US Equity	CONSUMER STAPLES SELECT SECTOR SPDR	US	24.0%	-22.8%	34.1%	3.5%
XLB US Equity	MATERIALS SELECT SECTOR SPDR	US	21.6%	-37.6%	64.9%	2.9%
XLI US Equity	INDUSTRIAL SELECT SECTOR SPDR	US	26.5%	-40.1%	60.0%	-4.2%
XLRE US Equity	REAL ESTATE SELECT SECTOR SPDR	US	24.7%	-34.2%	42.5%	-6.2%
XLU US Equity	UTILITIES SELECT SECTOR SPDR	US	22.1%	-30.5%	31.1%	-8.9%
XLF US Equity	FINANCIAL SELECT SECTOR SPDR	US	29.2%	-42.6%	43.0%	-17.9%
XLE US Equity	ENERGY SELECT SECTOR SPDR	US	4.7%	-60.7%	51.9%	-40.4%

Source: Bloomberg

Separately, the Covid-19 situation in the US continues to improve.

Last week, 44,779 new cases per day were recorded, the lowest since July 1 and down from over 70,000 cases per day in late July. Deaths per day from Covid-19 were also down to 1,017 over the past week, the

lowest since July 30 and well below the over 2,000 deaths per day we witnessed in April at the peak of the coronavirus crisis in the US.

Recent data indicate that the US economy has so far managed to weather July's sharp rise in Covid-19 cases, which some called the "second wave". The increase in cases threatened business closures that could have knocked the recovery off course. The US Purchasing Managers Index (PMI) composite (MPMIUSCA in the chart below), a measure of manufacturing and services activity, rose to 54.7 from 50.3 in July, an 18-month high, with both sectors seeing a big increase. A reading above 50 is a sign of expansion while a reading below 50 is a sign of contraction in the economy.

Meanwhile, in Europe, the UK PMI composite (MPMIGBCA) rose to a seven year high of 60.3, indicating that the recovery has gained speed across both the manufacturing and service sectors since July.

The composite PMI for the Eurozone however fell to 51.6 in August from 54.9 in July, indicating its expansion has slowed. This comes as infections are again surging in Europe. Thankfully those affected have been much younger on average than during the first wave of the pandemic, and hospitalizations and deaths have been much lower. This makes it less likely that governments will revert to widespread lockdowns. Preventive quarantine measures however have pushed back the recovery in the European services sector, particularly its tourism industry, which has its busiest time of the year around now in the third quarter.

IHS Markit Composite Purchasing Managers Index (PMI) - August 2020



Source: Bloomberg, IHS Markit

Also, the housing data continues to be the most redeeming area of the US economy shaking off still high unemployment rate. The pandemic is reshaping where and how Americans want to live in a post Covid-19 world and home buyers have returned in force.

The July sales numbers were among the strongest the housing market has ever seen. Sales of previously

owned homes jumped +24.7% from a month earlier to a seasonally adjusted annual rate of 5.86 million, according to the National Association of Realtors (NAR). That was the strongest monthly gain ever recorded, going back to 1968.

A big factor supporting housing demand – record low mortgage rates. In July, the average rate on a 30-year fixed mortgage fell to 2.98%, according to Freddie Mac, its lowest level in nearly 50 years of record-keeping. Also, buying surveys suggest housing demand looks strong in the near term. About 40% of home buyers polled by Realtor.com in June said they are looking to buy a home sooner because of Covid-19, while only 15% said the pandemic slowed down their timeline. Home sales can have positive knock-on effects as buyers spend on durable home goods and renovations.

Don't just look at the encouraging data in the US! China, the second largest economy in the world is out of Covid-19 lockdown. Its restaurants and gyms are busy again and airport departure lounges are getting packed. This has led to economists at the World Bank and elsewhere upgrading their forecasts for China, the only major economy expected to grow this year.

Where do equity markets go from here?

Now that the SPX has erased all its losses from the Covid-19 meltdown, where do we go from here?

In my view, the risk is still to the upside albeit tech stocks look overvalued and could be in for a short term reversal. As the equity sector return table below indicates, outside of the tech and communications sectors (and a few consumer discretionary stocks such as Amazon), most sectors are still barely positive for the year.

Benchmark Equity Index Performance (2019 & YTD)

Ticker	Name	Country	2019 Performance (Lcl Ccy)	Year-to-23 March 2020 Performance (Lcl Ccy)	23 March 2020 to Today Performance (Lcl Ccy)	2020 Year-to-Date Performance (Lcl Ccy)
CCMP Index	NASDAQ COMPOSITE INDEX	US	35.2%	-23.5%	69.4%	29.6%
SHCOMP Index	SHANGHAI SE COMPOSITE	China	22.3%	-12.8%	25.9%	9.8%
SPX Index	S&P 500 INDEX	US	28.9%	-30.7%	55.7%	7.9%
MXEF Index	MSCI EM	Emerging Markets	15.4%	-32.0%	47.6%	0.4%
IMOEX Index	MOEX Russia Index	Russia	29.1%	-26.0%	33.7%	-1.1%
DAX Index	DAX INDEX	Germany	25.5%	-34.0%	49.8%	-1.2%
INDU Index	DOW JONES INDUS. AVG	US	22.3%	-34.9%	53.3%	-0.2%
NKY Index	NIKKEI 225	Japan	18.2%	-28.6%	37.4%	-1.9%
MXIN Index	MSCI INDIA	India	8.5%	-36.0%	54.2%	-1.3%
HSI Index	HANG SENG INDEX	Hong Kong	9.1%	-23.0%	16.5%	-10.3%
SX5E Index	Euro Stoxx 50 Pr	Europe	24.8%	-33.6%	34.0%	-11.1%
MXTR Index	MSCI TURKEY	Turkey	20.0%	-26.0%	18.9%	-12.0%
IBOV Index	BRAZIL IBOVESPA INDEX	Brazil	31.6%	-45.0%	58.3%	-13.0%
FTSEMIB Index	FTSE MIB INDEX	Italy	28.3%	-33.8%	27.6%	-15.6%
CAC Index	CAC 40 INDEX	France	26.4%	-34.5%	28.1%	-16.1%
UKX Index	FTSE 100 INDEX	Great Britain	12.1%	-33.8%	20.1%	-20.5%
IBEX Index	IBEX 35 INDEX	Spain	11.8%	-34.8%	13.8%	-25.7%

Source: Bloomberg

Most importantly, the fiscal stimulus is still in place and more is to follow as the CARES II deal takes shape in the US. Federal Reserve Chairman Jerome Powell and other Federal Reserve policymaker still seem concerned with the plethora of unknowns that could stall, or in the worst case, exacerbate downward pressure on growth. With low inflation and interest rates making the Fed's conventional tools less powerful than before, Fed policymakers have been weighing inflation targeting – a policy of seeking

to make up for periods of low inflation by allowing subsequent periods of somewhat higher inflation. The practical effect – it will be a very long time before interest rate increases are discussed, let alone actually raised. At the last Federal Open Market Committee (FOMC) meeting, most officials didn't expect to raise interest rates at least through 2022.

All these, of course, are bullish risk and bullish equities.

I continue to be long equities with a bias to Consumer Staple (XLP) stocks which have more upside as the economy re-opens. I also favour Financials (XLF), Industrials (XLI) and Materials (XLB) stocks, which will play catch up. "Work from home" is good, but I refuse to believe it is a secular shift in a very meaningful way. When "back to work" returns, and it will, there will be a need for bigger infrastructure projects once again and for people and goods to move. The cost of capital will go up and industrial and material sector companies will be back in demand for their products and services.

Despite the surge in cases in Europe, there is room for a rally in European equities and indeed UK equities, which have fared badly when compared to their US counterpart (as the table above indicates).

Talking about Europe, no sector has been as beaten down in the post 2007 Great Financial Crisis (GFC) world as Eurozone banks. The Eurostoxx bank index (SX7E) has lost -87% since its 2007 high and is down -36% this year alone. The market capitalisation of the entire index is now smaller than that of JP Morgan. This year Covid-19 induced losses on loan books, and the ECB's advice to put a stop on dividend payments, both have hit the sector hard. All that is now behind us. A great deal of bad news is already reflected in the price. So is it time to look at Eurozone bank shares again?

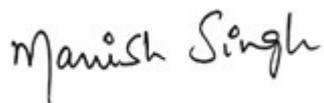
Eurostoxx Bank Index (SX7E) - 2007 to today



Source: Bloomberg

As a tactical recovery trade, yes. It is amply clear that “Keynesian policies” and not “austerity” will be the buzzword in the Eurozone for few years. This week, Germany extended a program that has kept millions of Germans from losing their jobs. Chancellor Angela Merkel’s coalition agreed to extend until the end of 2021 the job-preserving subsidies known in German as “Kurzarbeit” that pay the bulk of pay checks and allow companies to hold on to workers during an economic shock. It will cost Germany 10 billion Euros, which the government can easily fund through bond issues with negative yield. Therefore, any upturn in economic activity from expansionary fiscal settings in Germany and other Eurozone nations could see under-performing Eurozone bank shares react first and by the most. For specific stock recommendations, please do not hesitate to get in touch.

Best wishes,



Manish Singh, CFA

“America will never be destroyed from the outside. If we falter and lose our freedoms, it will be because we destroyed ourselves.”

- Abraham Lincoln, 16th US President

Summary

Presidential transitions in the US have existed in one form or another since 1797, when George Washington handed over the Presidency to John Adams. As per tradition, every four (or eight years for two-term Presidents), the clock hits noon on January 20 and the nation learns whether the outgoing President has accepted the legitimacy of the incoming President. Most transitions have gone well except a few. So what of the next one on January 20, 2021?

Opinion polls have proven untrustworthy and postal ballots, a bone of contention in the best of times, are going to play a very important role in the November US elections. This election cycle is set to see a dramatic increase in mail-in votes on account of Covid-19, from a normal 4-5% of the electorate voting by mail to a massive 20% by one estimate. President Donald Trump is fiercely critical of postal balloting and sees it vulnerable to voter fraud. This lays the groundwork for questioning the result of the election, if the contest is close. A close electoral loss for Trump is a nightmare that nobody in Washington is prepared to deal with, as it could most certainly lead to a constitutional crisis. Yet, recent war-gaming by the Transition Integrity Project indicates that “in three out of four scenarios the US Republic will hit constitutional impasse by the conclusion in January 2021.” Only a decisive win for Joseph Biden will avert

a constitutional crisis that may yet befall on the United States in January next year.

The S&P 500 index (SPX) is down only -1.4% year-to-date (YTD). The federal stimulus programs - unemployment payments to supplemental lost income from layoffs - are still in place and there's talk of extending them beyond the July 31 deadline. There could also be a second stimulus check for individuals and families. Yet, given the rise in the number of new cases and lack of a cure so far, US authorities will practise caution, and therefore the chances of a speedier re-opening are unlikely. Therefore, the summer months will unlikely get us a new high in the SPX. There is room however for a rally in European equities which have fared badly this year and have seen less of a recovery compared to their US brethren. The UK and European Union (EU) nations have managed to beat back the virus and this allows their governments to speed up their economic re-openings. In particular, travel for summer vacations is resuming and the spending it brings, will help the overall economy and the bounce in economic sentiment.

US Presidential transitions, will the next one go smoothly?

Congratulations to us all. We made it through to the second half of the year!

Presidential transitions have existed in one form or another since 1797, when George Washington handed over the Presidency to John Adams. As per tradition, every four (or eight years for two-term Presidents), the clock hits noon on January 20 and the nation learns whether the outgoing President has accepted the legitimacy of the incoming President. Most transitions have gone well, except for two noteworthy ones:

President Adams to President Thomas Jefferson in 1800-01: The first transfer of power between political parties and a turn away from the rule by the aristocratic elite to democratically elected leaders. Adams turned the transition into a display of personal pique, refusing even to accompany Jefferson to the Capitol for the inauguration. In later years they renewed their friendship through an exchange of 158 letters. "You and I," Adams told Jefferson in 1813, "ought not to die before we have explained ourselves to each other." Adams and Jefferson famously died on the same day, July 4, 1826, the 50th anniversary of the Declaration of Independence.

President James Buchanan to President Abraham Lincoln in 1860-61: Arguably the most catastrophic transition in American history. It was a time when sectional strife and division rose to such a high level that it split the Democratic Party and caused many to worry that the President-elect would not live to see his inauguration. With the country sliding toward civil war, outgoing President Buchanan sat passively as state after state seceded from the union. On the way to his inauguration, travelling by train from his home in Springfield, Illinois, Lincoln addressed crowds and legislatures along the way. He evaded possible assassins in Baltimore, who were discovered by Lincoln's head of security, Allan Pinkerton. By the time Lincoln was inaugurated, seven states had left the Union to form the Confederate States of America and the stage was set for a conflict that would claim the lives of more than 600,000 Americans before peace and the Union were restored in 1865.

New poll shows Clinton over Trump by double-digits

By Eric Bradner, CNN
Updated 4:43 PM EDT, Sun October 23, 2016

Hillary Clinton Leads Donald Trump by 14 Points Nationally in New Poll



Story highlights

An ABC News poll shows Clinton leading Trump, 50% to 38%

CNN's Poll of Polls average has Clinton ahead 48% to 39%

MAHITA GAJANAN October 26, 2016 5:49 PM EDT

Hillary Clinton has widened her lead over Donald Trump, polling 14 percentage points ahead nationally, according to a new Associated Press-GfK poll, which comes 12 days before the

Source: CNN, Time

Opinion polls have proven untrustworthy and postal ballots, a bone of contention in best of times, are going to play a very important role in the November elections. This election cycle is set to see a dramatic increase in mail-in votes on account of Covid-19, with many state legislatures and governors, who tend to oversee election rules, sending out more, given the risks of in-person voting. Norman Ornstein, a scholar with the think tank American Enterprise Institute and a member of the National Task Force on Election Crises, a bipartisan body doing worst-case election planning says that normally states conduct approximately 4-5% of their electorate voting by mail, but this year that figure could be a massive 20%. It could take a week or more to count them and the uncertainty would make it worse, if it were a close election.

Trump is fiercely critical of postal ballots. He recently tweeted that mail-in ballots “will lead to the most corrupt election in US history”, a message he has echoed repeatedly in recent weeks and months. Trump sees mail-in ballots vulnerable to voter fraud whilst his critics claim Trump’s views on postal ballot as more driven by his belief that voting by mail will more likely result in a Democratic vote.

This lays the groundwork for questioning the result and could lead to a constitutional crisis if the contest is close. Trump could look to contest the results and claim he’d won. Remember he’d still have control of the government machinery including the Department of Justice (DOJ) for 11 weeks after Election Day, unlike in the UK, where the newly elected leader could be in power as early as the day after election results are declared. Those 11 weeks leave a lot of room for complications and uncertainty to arise.

A close electoral loss for Trump is a nightmare that nobody in Washington is prepared to deal with, as it could most certainly lead to a constitutional crisis. Yet, recent war-gaming by the *Transition Integrity Project* - created by two academics- Nils Gilman, a historian who has run scenario planning exercises for

the US government for years, and Rosa Brooks, a former Pentagon official in the Obama administration and now a law professor at Georgetown University - indicates that "in three out of four scenarios the US Republic will hit constitutional impasse by the conclusion in January 2021."

Only in one scenario, a massive Biden victory, did Trump not seek to remain in power. The bipartisan group's focus has been the 78 days between the election on November 3 and the inauguration on January 20, when at noon the US Constitution demands that a president leaves office.

The identities of those who took part in the Transition Integrity Project war-gaming is closely guarded. However, as per reports, it is understood members include two former Governors, a former US cabinet Minister, ex-chiefs of staff to a US President and Vice President as well as retired members of the Pentagon and Congress - a sign of how seriously its work is taken.

Only a decisive win for Biden will avert a constitutional crisis that may befall on the United States in January next year.

Markets and the Economy

The S&P 500 index (SPX) wrapped up the second quarter of 2020, up + 20%, its biggest percentage gain since the last three months of 1998. A remarkable rally given the pessimism of March, when many were predicting new lows and a deeper correction, even as the index had fallen by -35%. Of course, the bears, in their enthusiasm to outdo the most bearish of predictions, completely overlooked the possibility of a fiscal response and the determination of the authorities to help and support people, jobs and the broader economy. An unprecedented \$1.6 trillion stimulus package from the Federal Reserve (the Fed) and the US Congress set a fire under the rally, as investors bought back what they had sold and more.

The SPX as of today is down only -1.4% year-to-date (YTD). Only the tech-focused National Association of Securities Dealers Automated Quotations exchange (NASDAQ) index and the Shanghai Composite (SHCOMP) index have done better than the SPX. While the NASDAQ has rallied steadily all through the second quarter reaching new all-time highs, the SHCOMP surged by +16% in the last 10 days, as economic numbers in China continue to get stronger. Just five tech stocks - Apple, Microsoft, Amazon, Alphabet, Facebook make up over 20% of the SPX and that has certainly helped the index.

Benchmark Equity Index Performance (2019 & YTD)

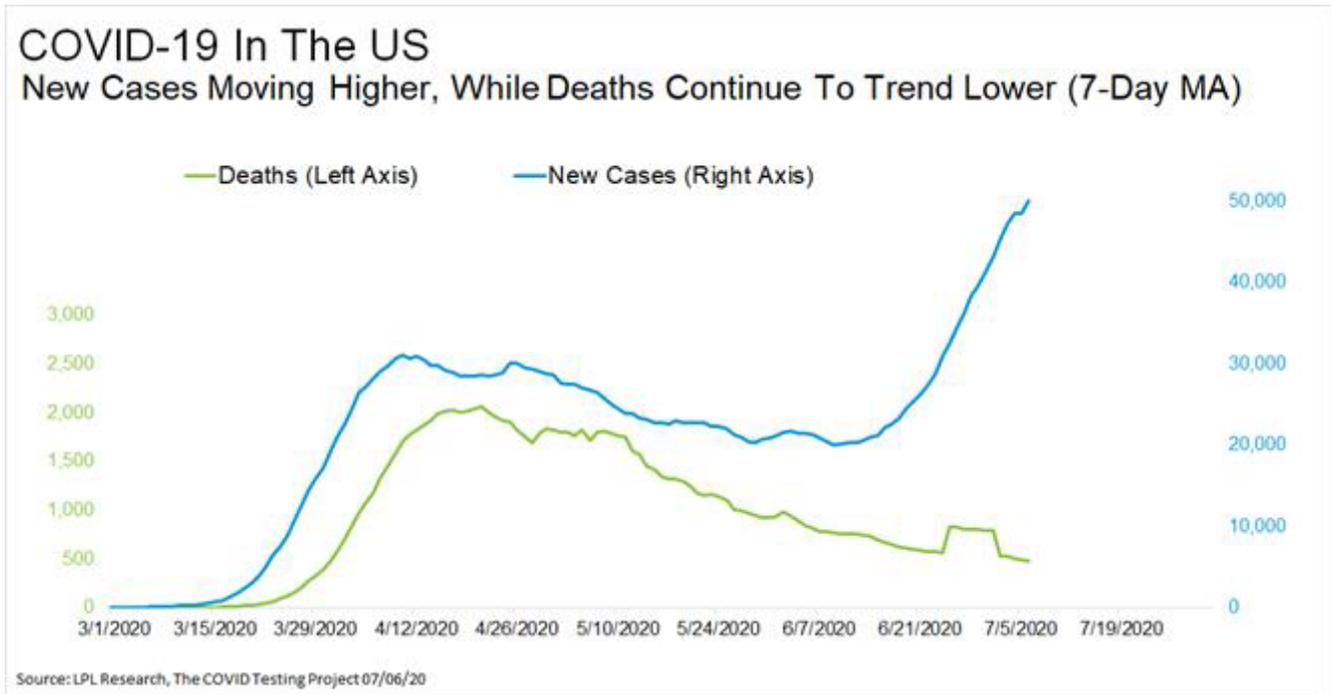
Ticker	Name	Country	Price	2019 Performance (USD)	2020 Year-to-Date Performance (USD)
SPX Index	S&P 500 INDEX	US	3,185	28.9%	-1.4%
CCMP Index	NASDAQ COMPOSITE INDEX	US	10,617	35.2%	18.3%
INDU Index	DOW JONES INDUS. AVG	US	26,075	22.3%	-8.6%
SX5E Index	Euro Stoxx 50 Pr	Europe	3,296	22.0%	-11.2%
UKX Index	FTSE 100 INDEX	Great Britain	6,095	16.5%	-23.0%
DAX Index	DAX INDEX	Germany	12,634	22.7%	-3.8%
CAC Index	CAC 40 INDEX	France	4,970	23.6%	-16.1%
FTSEMIB Index	FTSE MIB INDEX	Italy	19,768	25.4%	-15.2%
IBEX Index	IBEX 35 INDEX	Spain	7,321	9.3%	-22.6%
NKY Index	NIKKEI 225	Japan	22,291	17.1%	-4.3%
MXEF Index	MSCI EM	Emerging Markets	1,069	15.4%	-4.1%
HSI Index	HANG SENG INDEX	Hong Kong	25,727	8.5%	-9.2%
SHCOMP Index	SHANGHAI SE COMPOSITE	China	3,383	23.8%	10.3%
IBOV Index	BRAZIL IBOVESPA INDEX	Brazil	100,032	36.2%	-34.7%
IMOEX Index	MOEX Russia Index	Russia	2,801	15.8%	-19.5%
MXIN Index	MSCI INDIA	India	1,250	11.0%	-13.5%
MXTR Index	MSCI TURKEY	Turkey	1,382,514	35.0%	-20.3%

Source: Bloomberg

Covid-19 will continue to be the focus this quarter as the number of cases in the US are surging. However, what matters the most is the number of deaths. As long as the number of death do not increase appreciably, and I hope they don't, the markets will continue to stay positive and edge higher slowly as the economy continues to reopen. Also, remember the federal stimulus programs - unemployment payments to supplement lost income from layoffs - are still in place and there's talk of extending them beyond the July 31 deadline. There could also be a second stimulus check for individuals and families.

These measures together with an improving economy will continue to keep the US consumer's balance sheet in good health.

Based on the evidence so far (see chart below), even as the 7-day moving average (MA) of the number of new cases has surged from 20,000 to over 50,000 over the last four weeks, the number of deaths continues to tick down to new lows. This is encouraging. This virus didn't come with a manual, so one can't be certain that the number of deaths won't tick up. However, it will be a mistake to pre-empt and implement lockdowns, in a haste, given the damage these can do to the economy and overall mental health.



The essence is that the US economy is moving in the right direction, as many economic data points are coming in substantially better than what economists expected. From the May job gains coming in more than 10 million higher than expected and retail sales soaring a record +18%, how quickly the economy is bouncing back has surprised nearly everyone. However, before one gets too bullish, one ought to bear in mind that the federal stimulus programs cannot continue to go on forever, and businesses will have to pick up the full tab before year end and, for that, they need to see the demand for their product/service grow.

As I wrote in the [May newsletter](#), a 3,100-3,200 level on the SPX seems a fair range for me, where the index will hover barring a big economic surprise on the upside coming from speedier re-opening of the economy due to a breakthrough on a vaccine. Given the rise in the number of new cases and lack of a cure so far, the authorities will practise caution and therefore the chances of a speedier re-opening are unlikely. I suspect the summer months will unlikely get us a new high in the SPX.

There is room however for a rally in European equities and indeed UK equities, which have fared badly (as the table above indicates).

After failing badly at the start of the Covid-19 crisis, the UK and the European Union (EU) nations have managed to beat back the virus, help people to keep their jobs and wages, ready the healthcare system to deal with any new wave of the virus and lay the ground for economic growth.

In the UK, last week, Chancellor Rishi Sunak announced a stimulus package of £30 billion that amongst other things will help pay for people’s meals in restaurants and pubs, cut Value Added Tax (VAT) from 20% to 5% until January and raise the threshold at which people start paying stamp duty from £125,000 to £500,000 when buying property, meaning nine in ten people will be exempt from the levy.

Meanwhile, in the Eurozone, the years of austerity policies (as advocated by Germany) are history and the only disagreement among EU nations is - how to spend, not how much to spend. Germany’s embrace

of fiscal stimulus is a welcome change in a Eurozone starved of growth and with China showing signs of recovery and acceleration, Eurozone stocks look to have a good summer ahead. It's also aided by the excellent work Europe has done - relative to the US - and Emerging Markets in controlling the virus. This allows European governments to speed up their economic re-openings. In particular, travel for summer vacations is resuming and the spending it brings will help the overall economy and the bounce in economic sentiment. We are seeing signs of it already in the recent Purchasing Manager Index (PMI) data for services and manufacturing.

This will undoubtedly be positive for EUR/USD as foreign capital comes back chasing returns. A rally to above 1.15 is possible however I see EUR/USD stays in the 1.12 to 1.15 for next few months. The same goes for the GBP/USD which I also see range-bound in 1.25 - 1.30 even as data and sentiment in the UK improve. There is no appetite for big directional move given the overhang of the US elections, the uncertainty of GDP loss due to Covid and global economic growth which will be hamstrung due to fear of a new wave of coronavirus in the winter months.

Benchmark US equity sector performance (2019 & YTD)

Ticker	Name	Country	2019 Performance (Lcl Ccy)	Year-to-23 March 2020 Performance (Lcl Ccy)	23 March 2020 to Today Performance (Lcl Ccy)	2020 Year-to-Date Performance (Lcl Ccy)
CCMP Index	NASDAQ COMPOSITE INDEX	US	35.2%	-23.5%	69.4%	29.6%
SHCOMP Index	SHANGHAI SE COMPOSITE	China	22.3%	-12.8%	25.9%	9.8%
SPX Index	S&P 500 INDEX	US	28.9%	-30.7%	55.7%	7.9%
MXEF Index	MSCI EM	Emerging Markets	15.4%	-32.0%	47.6%	0.4%
IMOEX Index	MOEX Russia Index	Russia	29.1%	-26.0%	33.7%	-1.1%
DAX Index	DAX INDEX	Germany	25.5%	-34.0%	49.8%	-1.2%
INDU Index	DOW JONES INDUS. AVG	US	22.3%	-34.9%	53.3%	-0.2%
NKY Index	NIKKEI 225	Japan	18.2%	-28.6%	37.4%	-1.9%
MXIN Index	MSCI INDIA	India	8.5%	-36.0%	54.2%	-1.3%
HSI Index	HANG SENG INDEX	Hong Kong	9.1%	-23.0%	16.5%	-10.3%
SX5E Index	Euro Stoxx 50 Pr	Europe	24.8%	-33.6%	34.0%	-11.1%
MXTR Index	MSCI TURKEY	Turkey	20.0%	-26.0%	18.9%	-12.0%
IBOV Index	BRAZIL IBOVESPA INDEX	Brazil	31.6%	-45.0%	58.3%	-13.0%
FTSEMIB Index	FTSE MIB INDEX	Italy	28.3%	-33.8%	27.6%	-15.6%
CAC Index	CAC 40 INDEX	France	26.4%	-34.5%	28.1%	-16.1%
UKX Index	FTSE 100 INDEX	Great Britain	12.1%	-33.8%	20.1%	-20.5%
IBEX Index	IBEX 35 INDEX	Spain	11.8%	-34.8%	13.8%	-25.7%

Source: Bloomberg

In terms of sectors, the rally in Tech stocks looks overdone and a shift to more cyclical sector stocks in Energy (XLE), Industrial (XLI), Consumer Discretionary (XLY) and Materials (XLB) are a better bet. I am however not bearish on the Tech sector, I just advocate more stock-specific investing rather than buying the Tech sector index (XLK) as the way forward. I am particularly bullish on the payment services stocks and semiconductor stocks.

As I've mentioned before, I am in the camp that believes inflation and nominal growth will be engineered as a way out this recession and growth crisis and, therefore, I continue to be long floating rate bonds and financial stocks - both of which will benefit from shift in the steepening of the yield curve as economic data improves and market rushes to second guess the monetary tightening.

I'd also like to highlight the Biotech (XBI) sector which has broken out after 5 years of range-bound existence (chart below) and offers upside as the search for drugs to deal with coronavirus continues and we see a secular shift in increased healthcare spending globally.

SPDR S&P Biotech ETF (XBI) price chart



Source: Bloomberg

According to a survey of 190 fund managers by Bank of America in June, a second wave of coronavirus cases was cited as the most prominent risk facing stocks for a fourth consecutive month, followed by permanently high unemployment and a Democratic sweep of the election. These surveys are useful, but one also has to bear in mind that, if you ask traders about coronavirus you are essentially asking them to opine on a medical problem, which some may have no clue about.

So in these conditions, it is best to buy high quality stocks that one understands and hold your position through sell-offs or indeed if you have cash, then buy some more of the same good names.

For specific stock recommendations, please do not hesitate to get in touch.

Best wishes,

Manish Singh

Manish Singh, CFA

“A dangerous ambition more often lurks behind the specious mask of zeal for the rights of the people, than under the forbidding appearance of zeal for the firmness and efficiency of Government.”

- Alexander Hamilton, First US Secretary of the Treasury

Summary

By now, it must be abundantly clear to even the most ardent of Europhiles, that the level of debt, particularly that of Italy and Spain (and soon France) is unsustainable. This, especially in light of the ongoing Covid-19 induced global contraction of yet-unknown magnitude. If the Euro currency is to survive, then a European fiscal union has to take place sooner rather than later.

The Franco-German proposal for a €500 billion European Recovery initiative announced last week - financed by bonds issued by the European Union (EU), directly in its name and guaranteed by its revenues has got Europhiles calling it - Europe's "Hamiltonian moment," referencing Alexander Hamilton, the first US Secretary of the Treasury. Details remain sketchy and the proposal has already met with opposition from member nations. Additionally, the initiative does not make provisions for a permanent increase in the EU's meagre annual budget of €165 billion or give the European Commission the ability to raise funds under its name. The Recovery Fund is therefore not a "Hamiltonian moment," by any stretch of the imagination.

The S&P 500 index (SPX) reached the 3,000 levels this week and is now trading back above its 200-day moving average, for the first time since February 27. Very reassuringly, we are now seeing a broadening out of the rally and a move away from stocks benefiting from a surge in "work from home." Financial and industrial stocks have rallied this week as have other "re-opening" economy stocks in the leisure, consumer and travel sectors. This means that the SPX could easily get to over 3,100. I would, however, keep an eye on the 3,080 level, where the SPX broke down in March. The technology sector has rallied massively of late and may not have the legs to keep carrying on, particularly as GDP growth will suffer and sentiment and price-earnings (P/E) multiple expansion can only carry stocks so far. Fears of a second wave of coronavirus infections are not going away and the long-lasting economic fallout from stay-at-home orders and escalating trade tensions with China will only weigh on equities over the summer months.

Europe's Hamiltonian moment? Probably not

Since the introduction of the Euro over two decades ago as the "single currency" of the European Monetary Union, several commentators and economists have pointed to the inherent flaws and fragility of this Union - namely, the lack of shared financial and banking systems or the existence of a common fiscal authority.

After the 2008 financial crisis, some progress was been made on the banking system front, although it still remains an incomplete Union, without a Euro area-wide common deposit insurance scheme.

On the fiscal front, a rescue fund, the European Stability Mechanism (ESM) was created in 2012 - with a

maximum lending capacity of €500 billion – to help nations in financial distress. The real help however over the last decade or so has come from the European Central Bank’s (ECB) aggressive monetary easing and asset-buying programs, under the leadership of Mario Draghi, its former President.

Draghi’s “whatever it takes” speech in July 2012, has done more to keep the Eurozone together than any other political initiative before or since.

By now, it’s abundantly clear to even the most ardent of Europhiles that the level of debt particularly that of Italy and Spain (and soon France) is unsustainable, especially in light of the ongoing Covid-19 induced global contraction of yet-unknown magnitude. If the Euro is to survive, then a full fiscal union or a near fiscal union has to take place sooner rather than later.

German Chancellor Angela Merkel holds a joint video news conference with French President Emmanuel Macron, May 18, 2020



Source: Kay Nietfeld/Pool via REUTERS

Therefore, the unveiling at a socially-distanced press conference last week of the Franco-German proposal for a €500 billion European Recovery initiative – financed by bonds issued by the European Union (EU), directly in its name and guaranteed by its revenues, instead of using funds raised by national governments – has got many market and economic commentators quite excited.

Can this really be the first step to a fiscal union or is it just another episode of an EU muddle-through?

Only time will tell. Details remain sketchy and the proposal has many teething issues to be debated and resolved but it hasn’t stopped the Europhiles from calling it – Europe’s “Hamiltonian moment.” The reference is to Alexander Hamilton (1755-1804), the first US Secretary of the Treasury. I would recommend caution.

Firstly, at this stage, it's just a proposal and the Frugal Four as they are known- Austria, Netherlands, Denmark and Sweden, were quick out of the blocks to express their opposition to various elements of the plan. Over the weekend, they announced their counter-proposal, binning the key idea of the Franco-German proposal of debt-pooling. German Chancellor Angela Merkel and French President Emmanuel Macron now have to rally the other EU 27 nations to their vision of an EU that can tax, borrow and spend. However, all it takes is just one veto - and the plan collapses.

Alexander Hamilton is one of the few American figures featured on the US currency, who was never actually President. He features on the \$10 currency note. George Washington (\$1), Abraham Lincoln (\$5), Andrew Jackson (\$20), and Ulysses S. Grant (\$50) are the Presidents that appear on US currency notes.

Alexander Hamilton, First US Secretary of the Treasury

Big Reversal Years			
Largest Reversals for S&P 500 Index to Close Higher in The Same Year			
Year	Date of Lows	Max Year-To-Date Loss	Total Year Return
1933	2/27/1933	-20.1%	44.1%
1935	3/14/1935	-15.2%	41.4%
1938	3/31/1938	-19.4%	24.5%
1942	4/28/1942	-14.0%	12.4%
1949	6/13/1949	-10.9%	10.5%
1982	8/12/1982	-16.4%	14.8%
1984	7/24/1984	-10.4%	1.4%
2009	3/9/2009	-25.1%	23.5%
2016	2/11/2016	-10.5%	9.5%
2020	3/23/2020	-30.7%	?

Source: LPL Research, FactSet 4/12/2020
 All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
 The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Source: United States Treasury Bureau of Engraving and Printing

When George Washington became the first President of the United States, he made Hamilton the country's first secretary of the Treasury. Hamilton learned about central banking at an early age, when he read about how the Bank of England (BoE) provided liquid capital as a way to expand commerce - which in turn helped Great Britain become a global trading power. Drawing on readings on political economy, credit markets, and central banking, Hamilton set the ball rolling for a historic constitutional compromise between the northern and the southern states that transformed the young United States nation from a largely rural and agrarian country into a commercial powerhouse.

The key feature of the plan was the US federal government consolidating the debt incurred by the US states during the War of Independence into US Treasury debt, laying the foundation for a strong central federal government, which could tax and issue debt in its name and thus expand the supply of money with the help of the central bank at the time - the First Bank of the United States - which Hamilton helped set up. This is known as the "Hamiltonian moment"

What the EU Recovery initiative does not do, is make provisions for a permanent increase in the EU's meagre annual budget of €165 billion or give the European Commission the ability to raise funds under its name. Nor will the existing debts of EU nations be subsumed into joint obligations of the union, as done by Hamilton's plan. The possibility of a new debt shared jointly among all EU countries - the so-

called “coronabond” - has already been jettisoned. The Recovery fund is therefore not a “Hamiltonian moment” by any stretch of the imagination. At best, it is an apt historical reference perhaps, but the America of the 1780s and 90s couldn’t be more different than the present-day EU.

The American States then, as they are now, are still far more homogeneous in terms of culture, ideology, and their views of the purpose of money, the role of government in the lives of people collectively and individually - than Europe ever has been or will ever be. That homogeneity of political and economic principles is critical to holding together any sort of fiscal union. The situation of the member states of the EU is vastly different and in many ways is the exact opposite of the US. EU nations were formed over several centuries and throughout that, they have kept their language, currencies, distinct culture and ideologies. So will the EU ever have its “Hamiltonian moment”?

I have always been a sceptic of the EU and I don’t believe there will ever be the United States of Europe. Without a fiscal union however, the Euro cannot survive. Therefore, the bigger risk - the dissolution of the Euro - will focus even the hard-core nationalist German mind, as Germany has been the single largest beneficiary of the Euro.

Markets and the Economy

In the [last month’s newsletter](#), I wrote: “I feel even more positive about the equity markets than last month. I also feel that the SPX could ramp up not just over 3000 but set new highs later this year as many investors are still beholden to their bearish bias ignoring the amount of stimulus money that is flowing in or set to flow into the system.”

The S&P 500 index (SPX) reached the 3,000 levels this week i.e. it is now trading back above its 200-day moving average for the first time since February 27.



Source: Bespoke Investment Group

The 200-day moving average is seen as a classic momentum indicator and some investors view it as a signal to go long above this level, but not below it. Very reassuringly, we are now seeing a broadening out of the rally and a move away from stocks benefiting from a surge in “work from home.” Financial and industrial stocks have rallied this week as have other “re-opening” economy stocks in the leisure, consumer and travel sectors.

This means that the SPX could easily get to over 3,100. I would, however, keep an eye on the 3,080 level, where the SPX broke down big in March. I don’t see such a risk this time.

At its lows, the SPX was down more than -30% in 2020 and remains down -6% YTD. All previous reversals of -10% and over (see table below), have finished the year on a positive note. Can 2020 do the same? I suspect it can and it will.

Big Reversal Years

Largest Reversals for S&P 500 Index to Close Higher in The Same Year

Year	Date of Lows	Max Year-To-Date Loss	Total Year Return
1933	2/27/1933	-20.1%	44.1%
1935	3/14/1935	-15.2%	41.4%
1938	3/31/1938	-19.4%	24.5%
1942	4/28/1942	-14.0%	12.4%
1949	6/13/1949	-10.9%	10.5%
1982	8/12/1982	-16.4%	14.8%
1984	7/24/1984	-10.4%	1.4%
2009	3/9/2009	-25.1%	23.5%
2016	2/11/2016	-10.5%	9.5%
2020	3/23/2020	-30.7%	?

Source: LPL Research, FactSet 4/12/2020

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

While the rally has been spot on from an oversold position. I do now believe that it may stall over the coming weeks as the SPX reached 3,100. The technology sector has rallied massively of late and may not have legs to keep carrying on, particularly as GDP growth will suffer and sentiment and price-earnings (P/E) multiple expansion can only carry stocks like Shopify (SHOP) so far. Fears of a second wave of coronavirus infections are not going away and the long-lasting economic fallout from stay-at-home orders and escalating trade tensions with China will only weigh on equities over the summer months. Don’t forget that over 30 million Americans are still unemployed and while liquidity is not a concern, solvency of small businesses will be.

Lingering questions remain - Will planes fly half-empty until a vaccine is found? Will we ever be able to try on clothes in the shops again or try on shoes or browse in a bookstore? If not, will that affect our decision to buy? Perhaps it may postpone such a decision until later, thereby keeping GDP growth from getting back to normal.

The road back from today to pre-coronavirus days is going to be long or as Federal Reserve Bank of New York President, John Williams put it - “let’s not forget this is an extreme decline in economic activity, an enormous hardship for people in this country. So even if we are starting to see perhaps stabilization there in terms of the economy and maybe a little pickup, we are still in a very difficult situation.”

A sharp sell-off in the SPX, however, is unlikely. Near-zero interest rates and the US Federal Reserve's (Fed) buying of corporate bond ETFs are going to carry on. The Fed is also considering what's called Yield-Curve Control (YCC), where the Central Bank takes action to actively manage borrowing costs across different maturities. The need for a YCC policy may not be urgent as there is little doubt in anyone's mind that rates will stay low for a long time to come. Also, as various parts of the economy re-open, equities will form a solid base on the downside with earnings estimates starting to increase.

As I have written since calling the March SPX lows, the ramp-up usually is always a slow burn compared to the sell-off, so be careful not to be too bearish. We have seen a near +34% rally in the SPX since the March lows, although it may not feel like that for those still holding on to cash. The rally, of course, has not been broad-based and major US financial stocks such as - Citi (C US), JP Morgan (JPM US), and Bank of America (BAC US) are still down more than -30% year-to-date, as are industrial and energy sector stocks.

The ECB's ability to purchase bonds under a longstanding program came under fire earlier this month when a top German court demanded to know the justification for the program, prompting concern about the ECB's ability to backstop the region's debt markets. However, that concern seems to have been sidelined for now and European stocks are rallying in the wake of the "Hamiltonian moment" hope. I would suggest using the rally to sell long positions and re-position for a sell-off in European equities. My overweight continues to be US equities where both the outlook and return look much better.

I am not bullish on Emerging Markets (EM) equities at all and see them as a significant drag on performance.

I forecast a crisis building up in EMs and particularly in India if the lockdown continues. Listening to India's Finance Minister Nirmala Sitharaman last week felt as if she was giving an online swimming lesson to someone who was drowning. It's easy to shut down an economy, but difficult to reboot it and India is heading towards its first recession since 1979. It is one thing to say we will re-open, quite another to get it going. There has been little economic activity in India since March and the fourth phase of the lockdown started a week ago. The fiscal support offered is modest and mostly ineffective and will not have big impact. These factors also easily apply to other EM nations too.

Benchmark Equity Index Performance (2019 & YTD)

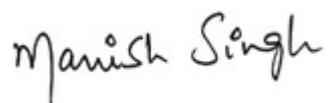
Ticker	Name	Country	2019 Performance	2020 Year-to-Date Performance
XLF US Equity	FINANCIAL SELECT SECTOR SPDR	US	29.2%	-25.1%
XLK US Equity	TECHNOLOGY SELECT SECTOR SPDR	US	47.9%	5.1%
XLV US Equity	HEALTH CARE SELECT SECTOR SPDR	US	17.7%	-2.4%
XLE US Equity	ENERGY SELECT SECTOR SPDR	US	4.7%	-34.1%
XLY US Equity	CONSUMER DISCRETIONARY SELECT SECTOR SPDR	US	26.7%	-1.8%
XLI US Equity	INDUSTRIAL SELECT SECTOR SPDR	US	26.5%	-18.4%
XLP US Equity	CONSUMER STAPLES SELECT SECTOR SPDR	US	24.0%	-8.3%
XLU US Equity	UTILITIES SELECT SECTOR SPDR	US	22.1%	-12.0%
XLB US Equity	MATERIALS SELECT SECTOR SPDR	US	21.6%	-11.5%
XLRE US Equity	REAL ESTATE SELECT SECTOR SPDR	US	24.7%	-12.7%
XLC US Equity	COMM SERV SELECT SECTOR SPDR	US	29.9%	0.4%

Source: Bloomberg

From a safety point of view, the Consumer Staples (XLP) and Healthcare (XLV) sectors are my favourites, however, as the economy keeps re-opening the gains are more likely to come from Consumer Discretionary (XLY), Industrials (XLI) Communication Services (XLC), and Technology (XLK) sectors.

For specific stock recommendations, please do not hesitate to get in touch

Best wishes,



Manish Singh, CFA