MONTHLY
MARKET REVIEW

10 2020

Strategic Investment Group®

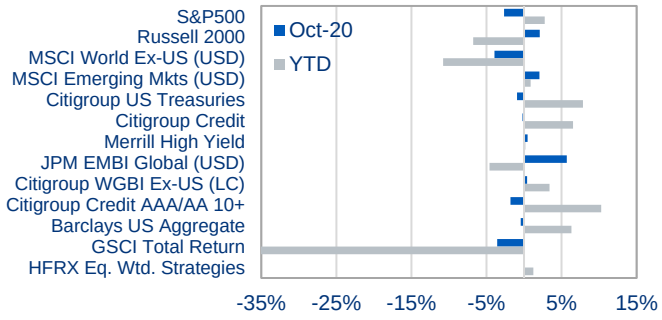
Global Market Review

Macro Summary

The resurgence of COVID cases in the U.S. and Europe sent global equity markets tumbling in October. With daily new case counts hitting a record of 100,000 in the U.S. and countries across Europe announcing renewed lockdowns, the global economic outlook deteriorated dramatically, suggesting that the strong economic rebound of the third quarter may prove short lived. China, the first to fall prey to the virus and the first to emerge from its clutches, was again an exception, as its equity markets extended their gains for the year. The U.S. dollar rose against major currencies in October, but other safe haven assets in the form of gold and U.S. Treasuries lost ground as yields rose from very low levels. Oil prices plummeted on fears of renewed disruption to global economic activity. Monetary and fiscal policies across the globe remain expansionary, contributing to rising debt levels and fears of future inflation.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



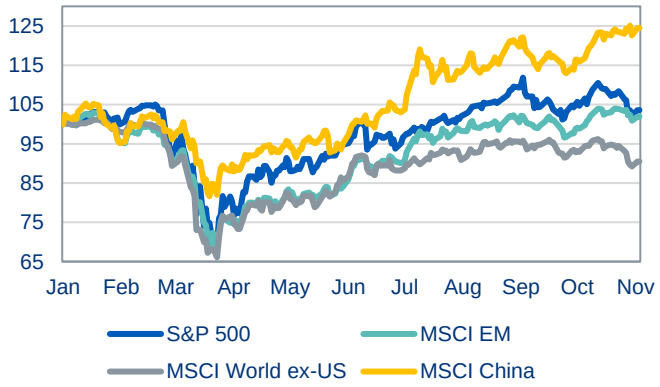
Resurgent virus cases send stocks tumbling.

Coronavirus Resurgence Sours Sentiment

Notwithstanding acute political anxieties, the U.S. equity market enjoyed a temporary rebound early in the month, following its 3.8% decline in September, as sentiment was initially positive in the wake of a record jump in economic activity in the third quarter. Stimulus-fueled consumer spending (up 40.7% annualized) propelled a spike in GDP growth (up 33.1% annualized). Business investment and a jump in housing construction encouraged by record low mortgage rates also contributed to the gains. However, the relief from record third quarter U.S. economic growth was rapidly replaced toward the end of the month by fears of renewed economic weakness as new daily cases surpassed 100,000 in the U.S. and European countries announced lockdown measures to prevent hospitals from being overwhelmed by a new wave of Coronavirus cases.

Exhibit 1. Equity Markets Remain Highly Volatile

Source: Bloomberg. Index January 1, 2020 = 100.



With sentiment soured by fears of a difficult winter, the S&P 500 lost 5.6% in the last week of October, its worst weekly return since March, resulting in a monthly decline of 2.6% (Exhibit 1). Despite this loss and heightened market volatility, the S&P 500 remains up 2.8% so far this year. Shares in the tech sector led the market lower in October, a reversal of fortune that reduced the gains for the sector to 22.5% for the year. Energy stocks, dragged down by plummeting oil prices, also fell sharply in October, bringing the sector's decline so far in 2020 to 52.3%. Both growth and value shares fell in October, although growth stocks lost more, weighed down by the tech sector decline. For the year, however, growth continues to outperform value by a wide margin.

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China Extends Its Lead over Other Equity Markets

The prospect of renewed lockdowns in Europe posed a major drag on developed non-U.S. equities in October, although nagging Brexit uncertainty, a slowing European service sector, and disinflationary pressure in Europe caused in part by the appreciation of the euro also contributed to the decline. The MSCI World ex.-U.S. index fell 3.9% in October, bringing its loss so far this year to 10.8%. A spike in Coronavirus cases and the imposition of lockdown measures by governments across Europe raised fears of a renewed deep slump in economic activity. As in the U.S., the grim outlook for growth contrasts starkly with the record rebound of economic activity in the third quarter across Europe and other advanced economies around the world as lockdown measures eased.

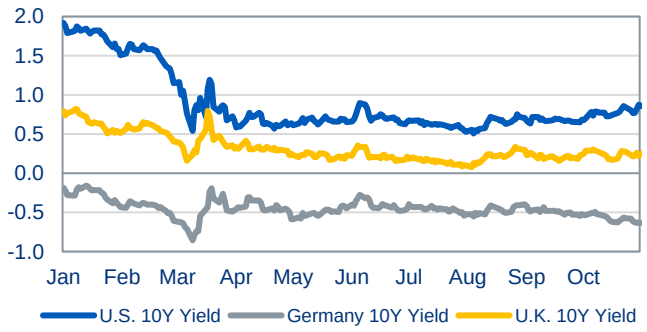
The MSCI Emerging market index rose, 2.1% in October, buoyed by a 3.3% increase in Asian markets. So far this year, emerging equity markets are up just under 1%, and this gain is wholly attributable to the Chinese rebound. Markets in the Latin American and EMEA regions are down 38.1% and 25.6%, respectively, so far this year. The outlook for a number of emerging economies, notably Brazil and Turkey, is clouded by high debt levels and in the case of Turkey a falling currency and rising inflation. China was one of the few major equity markets to register a gain in October and remains the best performing equity market so far this year with the MSCI China index boasting a return of 20.1% (see Exhibit 1). Having apparently escaped from the clutches of the Coronavirus, the Chinese economy has been recovering strongly and it is the only major economy expected to grow in 2020.

Search for Safety and Yield Supports Bonds

The U.S. yield curve steepened in October, resulting in a 3% decline in Treasuries with maturities of 10+ years. Expectations of post-election fiscal stimulus and increased inflation pushed yields higher, especially at the long end of the curve. So far in 2020, however, yields on 10-year U.S. Treasuries have fallen 105 basis points, and the 10+ year segment of the market is up 17.7%, notwithstanding record Federal deficits and massive monetary stimulus (Exhibit 2). Advanced government bond markets outside of the U.S. rose slightly in October and are up nearly 6% so far this year, despite the pervasiveness of bonds priced with negative yields. Emerging sovereign bonds lost a little ground in October and are up a quarter percent in 2020, notwithstanding record new issuance.

Exhibit 2. Low Yields on Safe Havens Persist

Source: Bloomberg. Yields in percent.



In the U.S. credit market, investment grade bonds are up 6.4% this year, while their high yield counterparts have registered only a slight gain. These gains have come despite high levels of corporate debt, loose underwriting standards, a surge in bankruptcy filings, concerns about recovery rates, and the risk of further damage to corporate fundamentals from a prolonged pandemic. Notwithstanding these risks, the search for yield has attracted both U.S. and foreign investors to the U.S. credit markets.

Hedge Funds Post Modest Gains

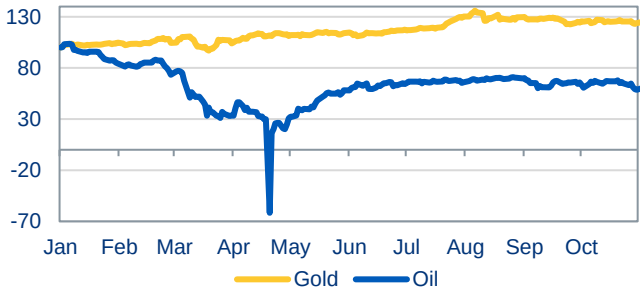
The HFRX Equal Weighted Strategies rose 0.1% in October, bringing its gain for the year to 1.2%. Most of the constituent strategies of the index were little changed in October. Convertible arbitrage and event driven strategies continue to enjoy the largest gains so far this year, while equity market neutral and equity hedge strategies have seen the largest losses.

Fortunes of Oil and Gold Diverge in Pandemic

Although somewhat lower than its record high in August, gold remains a major beneficiary of the anxiety created by the pandemic and the massive fiscal and monetary response that raise, in the mind of some, the prospect of eventual inflation and currency debasement. Oil prices, in contrast, have fallen from the combined effect of abundant supply, the result of a ruinous price war between Russia and Saudi Arabia in the second quarter, and the prospect of sustained weak demand as the global economy struggles under the weight of the pandemic. So far this year, GSCI All-Crude index is down 41.4%, dominating the 35.8% decline of the broader commodity index.

Exhibit 3. Gold Shines, Oil Slides

Source: Bloomberg. Index, January 1, 2020 = 100.



Performance of Major Market Indices through 10-30-2020

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	-2.7%	-2.7%	2.8%	9.7%	10.4%	11.7%
Russell 2000	2.1%	2.1%	-6.8%	-0.1%	2.2%	7.3%
MSCI World Ex-US (USD)	-3.9%	-3.9%	-10.8%	-6.8%	-1.2%	3.0%
MSCI Emerging Mkts (USD)	2.1%	2.1%	0.9%	8.3%	1.9%	7.9%
Citigroup US Treasuries	-0.9%	-0.9%	7.9%	6.9%	5.2%	3.6%
Citigroup Credit	-0.2%	-0.2%	6.5%	7.0%	6.2%	5.7%
Merrill High Yield	0.5%	0.5%	0.2%	2.5%	3.9%	6.1%
JPM EMBI Global (USD)	5.7%	8.1%	-4.6%	1.8%	2.3%	4.2%
Citigroup WGBI Ex-US (LC)	0.4%	0.4%	3.4%	1.9%	3.3%	2.9%
Citigroup Credit AAA/AA 10+	-1.8%	-1.8%	10.3%	9.6%	9.3%	8.7%
Barclays US Aggregate	-0.4%	-0.4%	6.3%	6.2%	5.1%	4.1%
GSCI Total Return	-3.6%	-3.6%	-35.8%	-31.3%	-11.7%	-8.6%
HFRX Eq. Wtd. Strategies	0.1%	0.1%	1.2%	2.8%	0.5%	1.5%