MONTHLY
MARKET REVIEW

09 2020

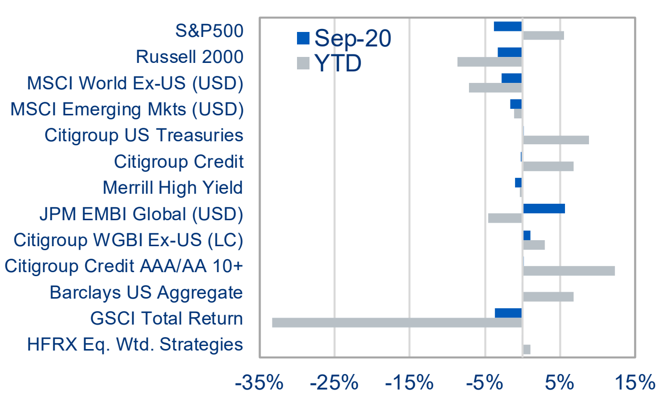
Global Market Review

Macro Summary

Hopes for a rapid economic recovery fueled by a string of positive economic surprises during the summer fell prey in September to doubts about the recovery's sustainability. Rancor and dysfunction in the U.S., a resurgence in Coronavirus cases in Europe, and intensified tensions between the U.S. and China further weighed on sentiment. Against this backdrop of rising uncertainty, global equity markets fell in September, led by the U.S. Credit markets also declined, but less than equities, and some investment grade credits eked out a small gain. The U.S. dollar and treasuries stood out as the few real gainers during the month. Commodities fell, led by oil, on concerns over global economic prospects. Even gold lost some of its luster, despite the gains of other safe havens.

Performance of Major Market Indices

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



Global equities surrender some earlier strong gains.

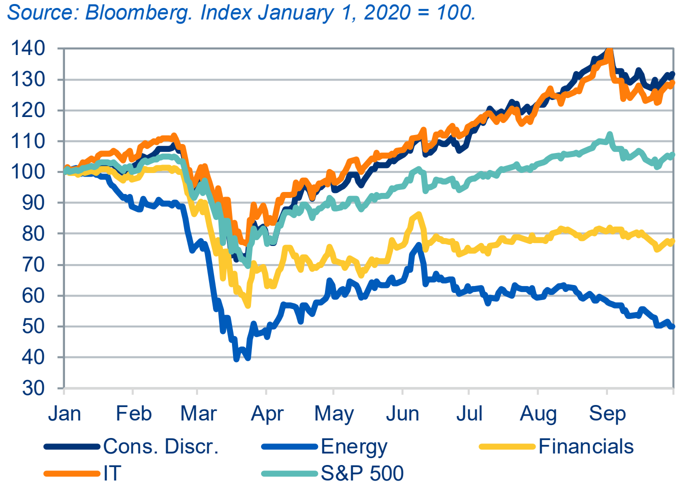
Broad-Based U.S. Market Decline

Following its exceptionally strong and lopsided 7.2% gain in August, the S&P 500 fell 3.8% in September. In contrast to the highly concentrated returns focused on a few mega-cap growth stocks in the tech sector experienced earlier, September's losses were spread broadly across virtually all market segments and sectors.

Despite September's reversal, U.S. equities remain up 5.6% so far this year, and the market dynamic of widely divergent returns across sectors and market segments remains solidly in place (Exhibit 1). The U.S. equity market is more concentrated than at the peak of the tech bubble due to the outsized performance of a few mega-cap tech stocks. Reflecting this dynamic, the tech sector has led all others, gaining 29% so far this year. The energy sector, in contrast, is down 50%, reflecting plunging oil prices. The financial sector has also suffered, falling 22% so far in 2020 owing to low profitability and concerns over asset quality. Among style segments, growth stocks remain the dominant performers, gaining 23% so far in 2020 versus the 12.2% decline in value stocks. Large cap stocks have outperformed their small cap counterparts by a wide margin.

Exhibit 1. Widely Divergent U.S. Equity Sector Returns

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



Declines in Non-U.S. Equities Are also Broad-Based

Both developed and emerging non-U.S. equity markets declined in September, although not as much as the U.S. market. The MSCI World ex.-U.S. index of developed non-U.S.

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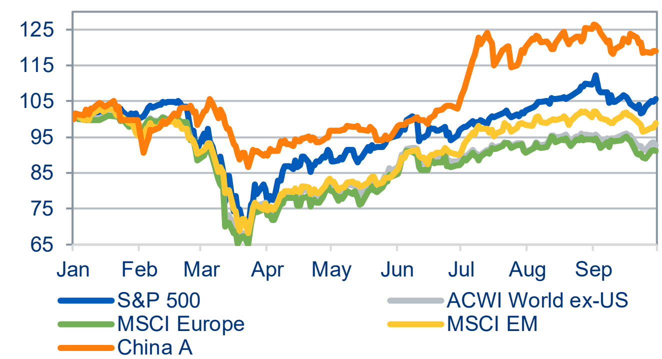
equity markets fell 2.8% in September while the MSCI Emerging Market index lost 1.6%.

China and the U.S. are among the few equity markets to have registered gains so far this year (Exhibit 2). European equity markets are down on concerns that Europe's economic recovery is at risk from a resurgence in Coronavirus cases necessitating renewed containment measures. U.K. equities and sterling have suffered from continued chaos in the Brexit negotiations. As a result, the FTSE 100 index is down 24% in U.S. dollar terms so far this year. The sectoral divergence in developed non-U.S. equity markets is similar to that of the U.S. The tech sector leads others with positive gains, while all other sectors have declined, with the energy and financial sectors falling most.

Exhibit 2. U.S. and China Outpace Other Equity Markets
Source: Bloomberg. Index, January 1, 2020 = 100.



The pandemic has revealed fragile fault lines among emerging market economies heavily dependent on external financing. There have been large portfolio outflows from emerging markets in September as well as earlier in the year. Latin American bourses are down 37% while emerging equity markets in Europe, the Middle East and Africa have fallen 22%. In contrast, Asian emerging markets, buoyed by a resurgent Chinese economy and strong Chinese equity returns have gained 11%.

Money Can't Buy You Inflation

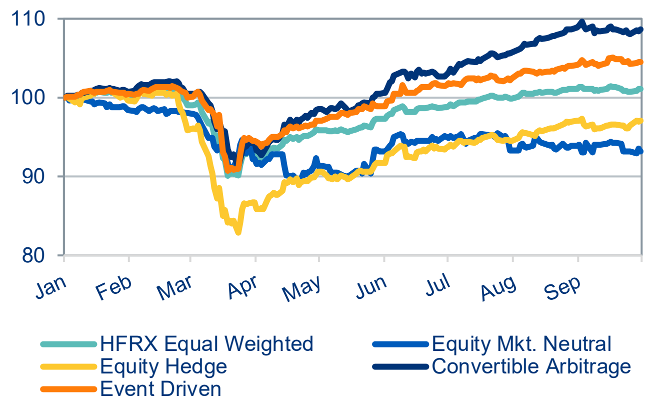
Notwithstanding the best efforts of central banks to inject massive amounts of liquidity in ever more creative ways, inflation expectations remain stubbornly below central bank targets in both the U.S. and Europe (Exhibit 3). Doubts about the sustainability of the recovery and, in the case of the U.S., concerns that political rancor will forestall further fiscal stimulus are the main factors contributing to the persistence of low inflation expectations. In the Eurozone, annual inflation fell to minus 0.3% in September – the lowest rate in more than four years. Reflecting expectations for quiescent inflation well into the future and continued safe haven demand, bond yields remain near historic lows across advanced economy markets. Long-term U.S. Treasuries have returned 21.4% so far this year, a performance bettered only by U.S. large-cap growth stocks, which are up 24.3%. Advanced government bond markets outside of the U.S. have also registered strong gains, with the WGBI index up 7.1% so far in 2020. Emerging bond markets have enjoyed more modest gains of 0.4%.

Exhibit 3. Inflation Expectations Remain Subpar
Source: Bloomberg. Data reflect 10-year breakeven inflation rates.

Hedge Funds Rise

There has been wide divergence in the performance across hedge fund strategies. Convertible arbitrage and event driven strategies have enjoyed the largest gains so far this year, while equity market neutral and equity hedge strategies have seen the largest losses (Exhibit 4). Taken together, the HFRX Equal Weighted Strategies index is up 1.1% so far in 2020.

Exhibit 4. Wide Divergence Across Hedge Fund Returns
Source: Bloomberg. Index, January 1, 2020 = 100.



Oil Slips, Gold Loses Luster, Commodities Tumble

After reaching a record high in August, gold prices fell 4.2% in September, in part reflecting dollar appreciation. Oil prices fell 5.6% in September, bringing their decline for the year to 34% as supplies remain abundant and demand growth uncertain. The GSCI is down 33.4% so far in 2020, also largely reflecting concerns over global economic growth.

Performance of Major Market Indices through 09-30-2020
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	-3.8%	8.9%	5.6%	15.1%	12.3%	14.1%
Russell 2000	-3.3%	4.9%	-8.7%	0.4%	1.8%	8.0%
MSCI World Ex-US (USD)	-2.8%	4.9%	-7.1%	0.2%	0.6%	5.3%
MSCI Emerging Mkts (USD)	-1.6%	9.6%	-1.2%	10.5%	2.4%	9.0%
Citigroup US Treasuries	0.1%	0.2%	8.9%	8.0%	5.5%	3.7%
Citigroup Credit	-0.2%	1.6%	6.8%	7.8%	6.4%	5.9%
Merrill High Yield	-1.0%	4.7%	-0.3%	2.3%	3.8%	6.6%
JPM EMBI Global (USD)	5.7%	8.1%	-4.6%	1.8%	2.3%	4.2%
Citigroup WGBI Ex-US (LC)	1.1%	0.9%	3.0%	0.5%	3.4%	2.9%
Citigroup Credit AAA/AA 10+	0.2%	1.5%	12.3%	11.6%	10.2%	9.2%
Barclays US Aggregate	-0.1%	0.6%	6.8%	7.0%	5.2%	4.2%
GSCI Total Return	-3.6%	4.6%	-33.4%	-27.8%	-9.5%	-7.9%
HFRX Eq. Wtd. Strategies	-0.1%	2.3%	1.1%	3.0%	0.6%	1.7%