





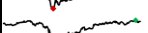

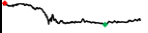





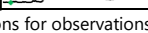
- US Presidential election still undecided ([link](#))
- China's new Five Year Plan aims to double income and output by 2035 ([link](#))
- European corporate earnings were very positive in Q3 ([link](#))
- Tomorrow's FOMC meeting expected to be uneventful ([link](#))
- US investment grade company earnings stronger than expected ([link](#))
- Pandemic intensifies pressure on US mall sector ([link](#))
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## Markets Confront Prolonged Uncertainty in US Election

The US presidential election remains undecided with the prospect of extended legal wrangling in the days ahead. Regardless of the outcome, divided government will continue in the US, narrowing the range of policy options to deal with the pandemic. Markets are grappling with the implications, but Asia and Europe are generally higher and S&P 500 futures were also up. The impact of an uncertain outcome has not turned out to be as negative as many people feared. Meanwhile, the COVID-19 crisis continues to get worse in the US and Europe and will probably take up more attention now that the election is over. Brexit is also likely to move back into focus. The dollar is mixed, US Treasury yields have fallen significantly on safe haven buying, while oil is staging a major rally, up 8% this week.

Key Global Financial Indicators

Last updated: 11/4/20 8:10 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3369	1.8	-1	1	9	4
Eurostoxx 50		3122	0.8	5	-2	-15	-17
Nikkei 225		23695	1.7	1	3	4	0
MSCI EM		45	0.4	-1	3	5	1
<b>Yields and Spreads</b>			bps				
US 10y Yield		0.79	-10.8	2	9	-99	-113
Germany 10y Yield		-0.63	-1.3	-1	-10	-28	-45
EMBIG Sovereign Spread		421	0	17	-10	97	128
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		54.7	0.8	1	0	-11	-11
Dollar index, (+) = \$ appreciation		93.4	-0.1	0	0	-4	-3
Brent Crude Oil (\$/barrel)		40.8	2.7	4	4	-34	-38
VIX Index (% change in pp)		31.1	-4.5	-9	3	18	17

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

## United States

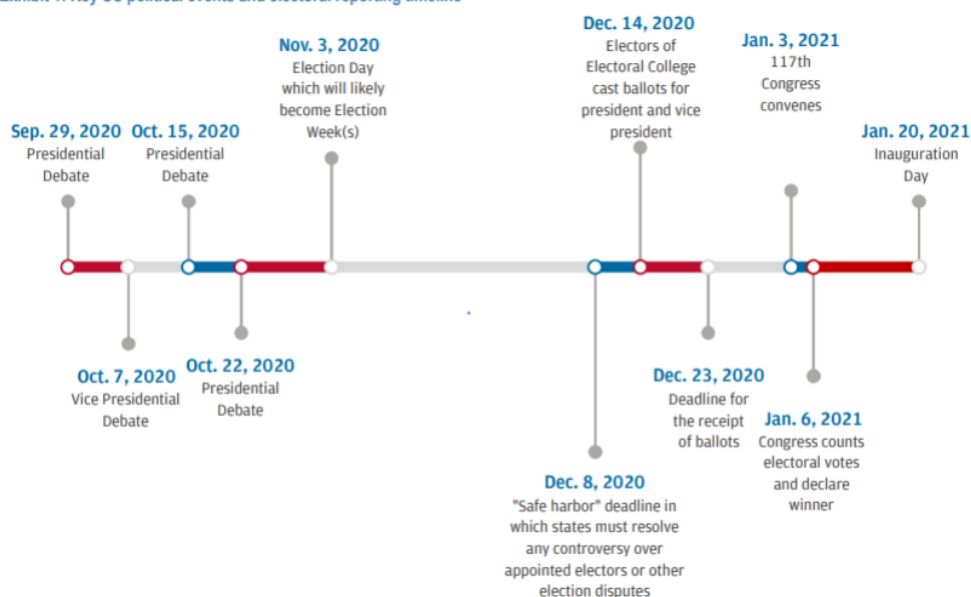
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**The US Presidential election remains undecided, with challenger Biden holding a narrow lead 238-213 lead in the Electoral College, according to Bloomberg.** The Blue Wave failed to materialize as Democrats failed to win the Senate. Close contests in six remaining states have still to be resolved, but most of these states lean towards the Democrats and the betting markets have pushed Biden's odds of victory to 80% from 60-65% yesterday morning. However, with the prospect of legal disputes looming large, the outcome remains highly uncertain. After the disputed 2000 election, US markets fell roughly 10% through November a December amidst very high volatility. The relatively calm reaction today has surprised many analysts, with global equities doing well in early morning trading. The safe haven rally in Treasuries has been solid but not as large as many had expected. However, with another period of divided government locked in, reflation trades are selling off, with inflation expectations falling and cyclical stocks getting punished.

We republish here a chart from an earlier issue of the GMM showing key dates in the Presidential election process. Now that the possibility of election disputes has increased, previously obscure details of the formal electoral process could acquire unexpected importance.

### Standard Timeline

Exhibit 1: Key US political events and electoral reporting timeline

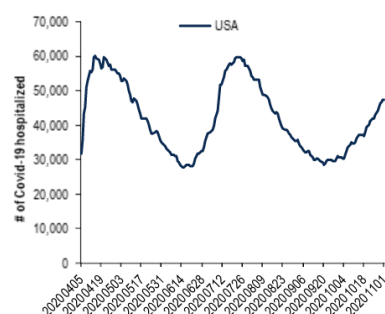


Source: J.P. Morgan Strategic Research

**This morning's ADP employment report was very weak, with just 365K new jobs in October (the consensus forecast was 650K).** The ADP report and the non-farm payrolls report are not well correlated. The consensus for Friday's jobs report is that 600K jobs were added, with the unemployment rate expected to tick down to 7.6% from 7.9% in September. Treasuries extended their rally in the immediate aftermath of the news. The report underscores ongoing worries that the US economy could be slowing down again.

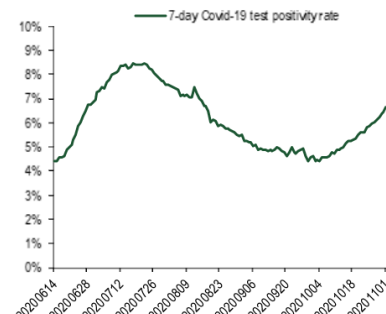
**The US virus crisis continues to worsen.** The daily infection rate hit 100K on Friday and 180K new cases were recorded in the US over Monday and Tuesday. To make matters worse, the hospitalization rate has gone up significantly. With flu season and cold weather approaching, epidemiologists are very worried that the crisis could enter another acute phase even worse than what was experienced in the spring and summer. Many analysts are worried that markets remain too optimistic about the crisis and could suffer heavy losses if the economic impact gets worse. A stream of strong data reports has supported confidence, but if this trend is reversed the market could be facing another bout of volatility for which it seems unprepared.

Figure 1: Recent sharp increase in US Covid-19 hospitalized



Note: We linearly interpolated missing data for states MN and MO 10/3-10/7.  
Source: Covidtracking

Figure 2: Recent increase in US Covid-19 test positivity rate

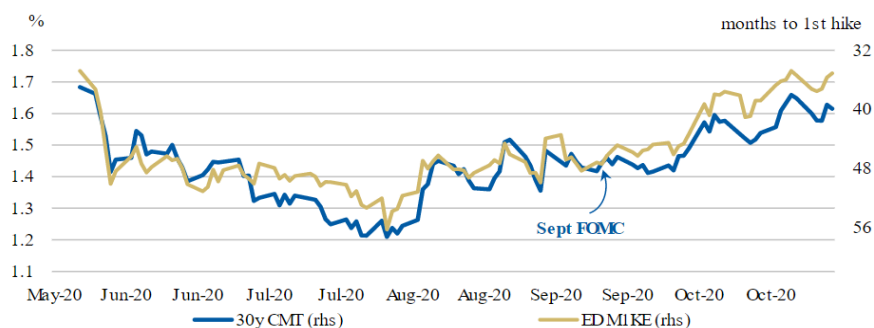


Source: Covidtracking

**Source: Bank of America**

**At tomorrow's FOMC meeting and press conference, markets will watch to see what Fed Chair Powell is willing to say about the Fed's asset purchases or interest rate outlook.** Given the timing so close to the election, most do not expect any significant developments. However, the December 16 meeting will draw major attention as it will likely give a clearer picture of what the Fed expects to do in 2021. Depending on the level of Treasury yields, the FOMC will probably begin to look at what markets are pricing for the timing of the first rate hike. Morgan Stanley's months to first Fed rate hike measure (known as M1KE) based on interest rate futures and options markets currently projects that the first rate hike will occur in 35 months. The M1KE measure has climbed in step with higher longer maturity yields, an outcome that the Fed will not view favorably. The Fed has been at pains to maintain that there will be no rate hikes in 2023, so a continued rise could move the Fed to change its forward guidance or use some other method to rein in the market's rate hike expectations.

Exhibit 15: Moves in M1KE alongside move in 30y Treasury yields

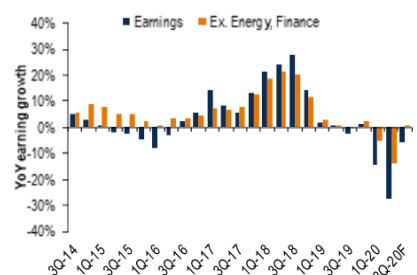


Source: Bloomberg, Morgan Stanley Research

**US investment grade (IG) companies saw Q3 earnings come in flat to slightly negative, but this was well above analyst expectations of a steep decline.** Revenue growth was positive, raising hopes that

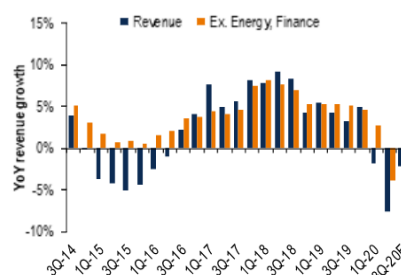
these companies have turned the corner, barring another economic shock from the virus. Credit spreads remain tight and investors in the corporate bond market have done very well in recent months. With new supply likely to be limited going into year-end, technical conditions are looking good for the market. However, everything still depends on how the virus crisis unfolds.

Figure 9: Earnings growth for US investment grade issuers



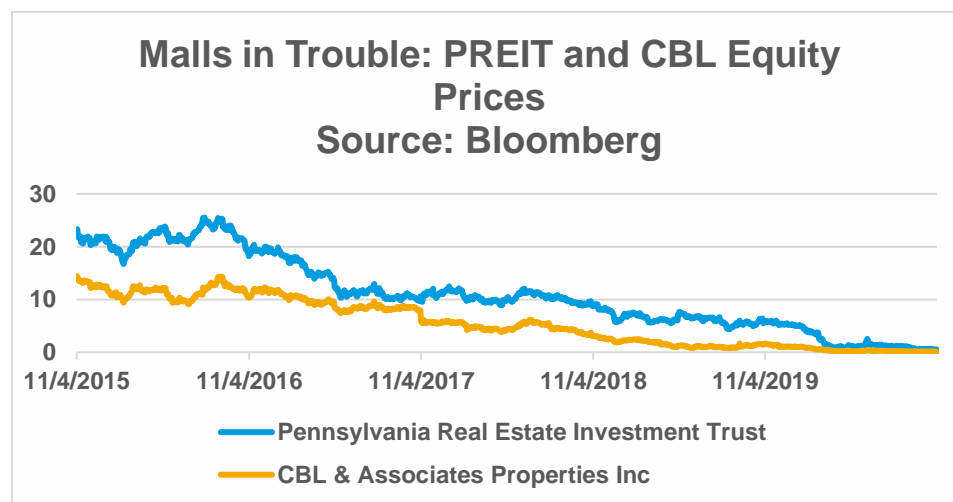
Note: 3Q20 based on the actual results when available and consensus estimates otherwise  
Source: BofA Global Research, FactSet.

Figure 10: Revenue growth for US investment grade issuers



Note: 3Q20 based on the actual results when available and consensus estimates otherwise  
Source: BofA Global Research, FactSet.

**Two major mall landlords have filed for bankruptcy as dwindling tenant receipts due to the pandemic put the entire US mall industry under severe pressure.** Pennsylvania Real Estate Investment Trust (PREIT) and CBL & Associates sought protection from their creditors over the weekend, blaming the economic impact of the epidemic. Their equity prices had already sunk to nearly zero before the move as investors grew increasingly pessimistic about the mall sector. The collapse of companies such as Brooks Brothers and JC Penney has put their mall landlords into grave difficulties. CBL has a portfolio of roughly 100 properties and PREIT has about 30, according to Bloomberg. The data show that 14% of US mall properties are delinquent, compared to 7% at the height of the global financial crisis.



## Europe

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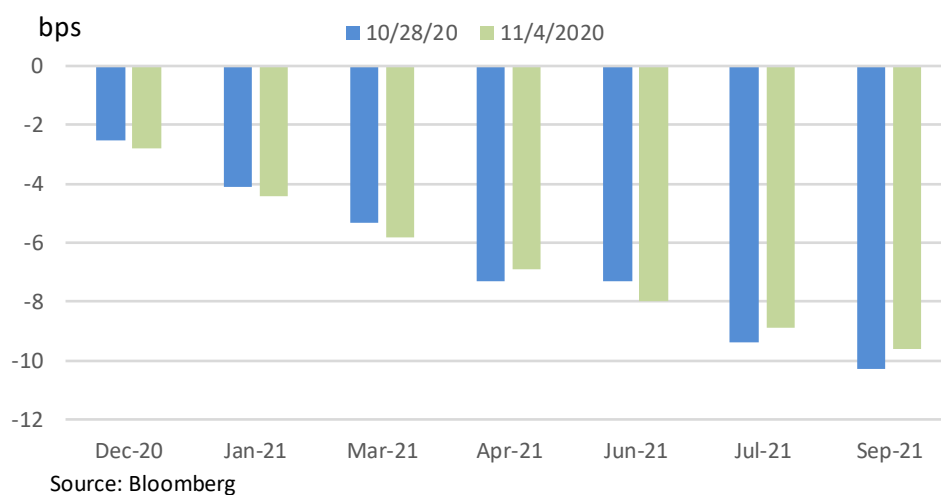
European equities fell as much as 3% this morning but managed to recover with most country indices now trading in positive territory. Health care (+2.7%) sector is outperforming and energy shares (-1.5%) are underperforming the broader index.

The euro (-0.10%) and the sterling (-0.4%) were slightly lower this morning with the broader repricing of risk.

German bund yields opened 5 bps lower this morning, following the sharp move in the U.S. yields, but retraced to just 2 bps lower on the day. Southern European spreads are mostly unchanged.

**ECB's Executive Board member Schnabel suggested that a further deposit rate cut is possible as the central bank is not yet at the reversal rate.** At this stage, most analyst do not expect further reduction in the deposit rate, unless a significant appreciation of the euro is realized. Market pricing was little changed following the last ECB meeting with 10 bps cut firmly priced by September 2021. Separately, **media reports point to the ongoing debate within the ECB around the composition of the December policy package.** As Reuters highlights, the flexibility of the Pandemic Emergency Purchase Program (PEPP) and resulting deviation from the capital key principal have compressed Southern European yields to the extent that they are potentially avoiding loans under the EU's Next Generation Fund, which come with productivity conditionality. Aside from the expansion of the PEPP or the Asset Purchase Program, some contacts now also expect addition of "fallen angels" to the list of eligible corporate bonds.

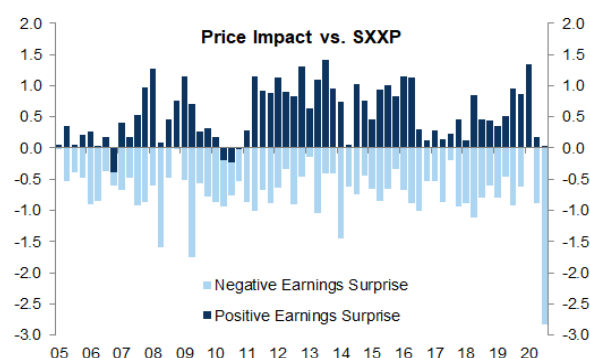
### Market implied ECB deposit rate change



**European Q3 earnings season maintained a strong momentum** with average earnings surprising by 17%, and 85% of reporting companies beating analyst estimates with one third of firms having reported. Despite the large upward revision of earnings estimates over the last two weeks, the consensus still expects 2020 earnings per share to be down 33%. Automobile, travel and leisure, banks and basic resources are the sectors delivering the largest share of positive results. Interestingly, so far this season investors are penalizing the few companies that miss expectations while providing little reward for outperformance.

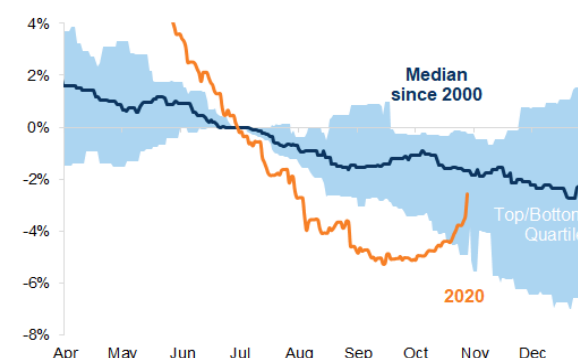
**Exhibit 1: The price reaction to a miss is the largest since the GFC**

Median relative price performance on the day of the result

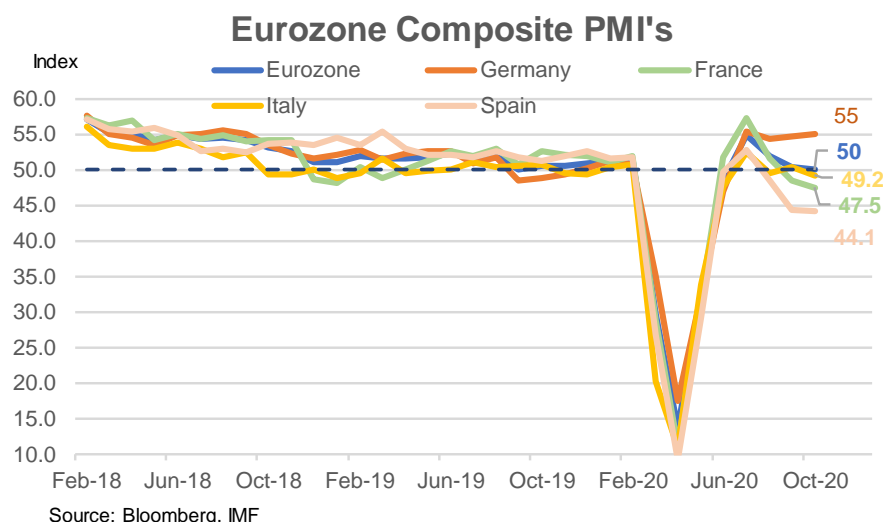


**Exhibit 2: STOXX Europe 600 2020E EPS have been revised upwards**

EPS revision; indexed at the start of 3Q



**Eurozone final composite PMI was revised out of the contraction zone, from 49.4 to 50.0.** The revision comes on the back of better service sector results in Germany (49.5 vs 48.9 earlier) as well as upside surprise out of Spain (October service PMI 41.4 vs 40.0 expected).



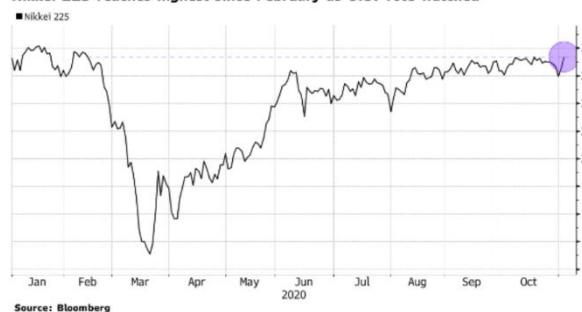
## Other Mature Markets

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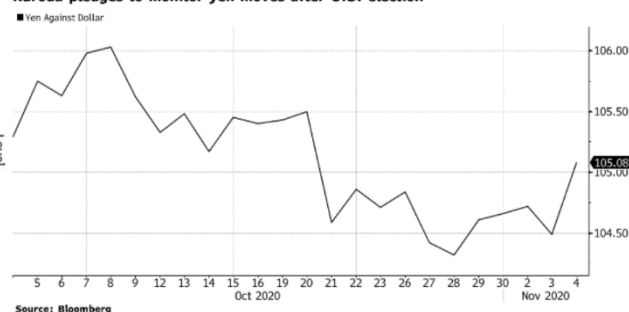
### Japan

**Equities (+1.2%) rose for a second day, buoyed by electronics and pharma.** Bank of Japan (BOJ) Governor Kuroda said that “stability in foreign exchange rates is very important”, according to Bloomberg. He also added that there is no need to review the BOJ’s easing measures for now even though the pandemic has derailed Japan’s aim of inflation meeting the 2% target. **The yen depreciated -0.4% while 10-year JGB yield fell -0.9bps.**

**Nikkei 225 reaches highest since February as U.S. vote watched**



**Kuroda pledges to monitor yen moves after U.S. election**




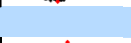






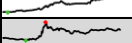
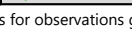




## Emerging Markets

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**EMEA bourses were mostly higher even as the US election results remain on the balance.** Hungary did the best (+2.2%) while Poland (-1.3%) lost ground. **Asian equities were unchanged on net, erasing earlier gains.** Philippines (+2%) outperformed on positive exports data (the first expansion in six months) and news that the government may ease social distancing restrictions further by 2021Q1. Hong Kong SAR fell as Alibaba declined on news that Ant’s initial public offering (IPO) is shelved while. China’s Caixin services purchasing managers index (PMI) beat expectations for October. **Latin American assets** mostly followed US markets higher yesterday, and local currencies generally outperformed, with Brazilian stocks (+2%) and the Chilean peso (+1.8%) in the lead.

## Key Emerging Market Financial Indicators

Last updated: 11/4/20 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		45.48	1.6	-1	3	5	1
MSCI Frontier Equities		26.41	1.3	0	3	-8	-13
EMBIG Sovereign Spread (in bps)		421	0	17	-10	97	128
EM FX vs. USD		54.73	0.8	1	0	-11	-11
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.66	0.3	1	2	6	5
Indonesian Rupiah		14565	0.1	0	2	-4	-5
Indian Rupee		74.75	-0.5	-1	-2	-5	-5
Argentine Peso		78.95	0.0	-1	-2	-24	-24
Brazil Real		5.70	1.0	1	-2	-29	-29
Mexican Peso		21.02	0.4	1	2	-9	-10
Russian Ruble		78.86	0.4	0	-1	-19	-21
South African Rand		16.04	0.1	2	3	-8	-13
Turkish Lira		8.45	-0.6	-2	-8	-32	-30
EM FX volatility		11.39	0.0	-0.2	-0.3	4.1	4.8

Colors denote tightening/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

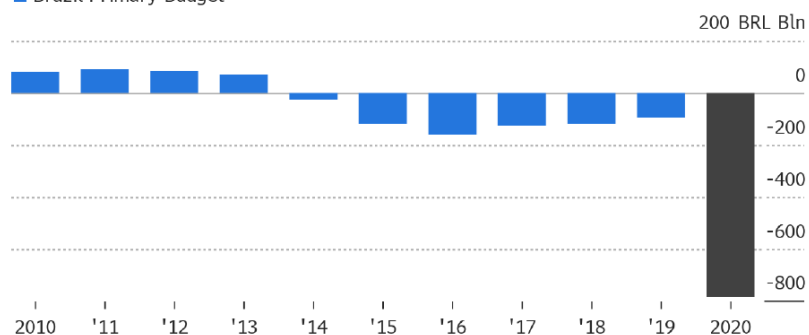
## Brazil

The minutes of the Copom monetary policy committee suggested that the central bank might reconsider its promise to stay on hold at a record low of 2% for an extended time. Although inflation expectations remain below target, potential changes in the government's fiscal policy might "motivate" a change in stance. As the government spends to prop up the economy during the crisis, the national debt is nearing 100% of GDP, making some market participants uneasy. Bloomberg's Latin American economist takes the view that the bank is "sending a message" to the government to keep on the right side of the spending cap and not seek creative ways to get around the spending cap.

## Unsustainable Trend

Fiscal risks could prompt review of Brazil's central bank rate guidance

■ Brazil Primary Budget



Source: Brazil's National Treasury  
\*2020 Estimate

Bloomberg

## China

China released broad plans for the 14<sup>th</sup> Five-Year Plan and long-term goal for 2035 on Tuesday. According to Xinhua, China aims to reach the high-level income country status in the next five years and to double the total economic output or income per capita by 2035. Analysts said that the goal implies an average GDP growth of around 4.7% over 2021-2035. Equities (Shanghai +0.2%; Shenzhen +0.3%) rose slightly while the RMB (onshore -0.5%; offshore -0.7%) weakened.

**Ant Group \$35bn initial public offering (IPO) has been halted unexpectedly, several days before it is set to trade on Shanghai and Hong Kong.** This followed a rare joint meeting between Ant's executives, including Jack Ma, with the central bank and three other financial regulators on Monday. According to Bloomberg, Chinese regulators told Ant that it cannot proceed with the IPO until after it complies with new capital and liquidity requirements and other restrictions imposed on Chinese financial conglomerates that took effect on November 1. **It remains unclear how extensively Ant would have to overhaul its business to meet China's new regulations.** Changes could include capital increases at its micro-lending units and reapplying licenses for the units to operate worldwide. A proposed measure calls for platform operators to provide at least 30% of the funding for loans, which would render many of Ant's existing transactions non-compliant. Ant currently holds approximately 2% of loans on its own balance sheet. **Alibaba's (which owns a third of Ant) shares dropped -7.3% in Hong Kong SAR trading.**

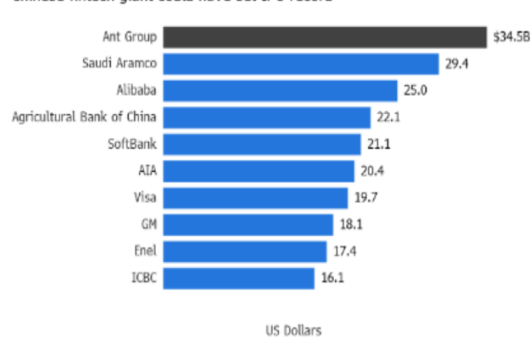
**Alibaba shares fall by a record in Hong Kong**

Alibaba Group Holding Ltd - Price Change 1 Day Percent



**Ant Rules**

Chinese fintech giant could have set IPO record



Source: Bloomberg  
Note: Based on Ant's estimated IPO

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## Global Financial Indicators

Last updated: 11/4/20 8:11 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3369	1.8	-1	1	9	4
Europe		3122	0.8	5	-2	-15	-17
Japan		23695	1.7	1	3	4	0
China		3277	0.2	0	2	10	7
Asia Ex Japan		80	0.2	-1	4	12	9
Emerging Markets		45	0.4	-1	3	5	1
Interest Rates			basis points				
US 10y Yield		0.79	-10.8	2	9	-99	-113
Germany 10y Yield		-0.63	-1.3	-1	-10	-28	-45
Japan 10y Yield		0.04	-0.7	1	2	21	5
UK 10y Yield		0.24	-3.6	2	-1	-49	-59
Credit Spreads			basis points				
US Investment Grade		124	-1.1	-1	-10	5	27
US High Yield		517	0.3	-14	-22	65	124
Europe IG		61	-0.7	-4	4	12	17
Europe HY		351	0.8	-19	17	124	145
EMBIG Sovereign Spread		421	0.0	17	-10	97	128
Exchange Rates			%				
USD/Majors		93.41	-0.1	0	0	-4	-3
EUR/USD		1.17	0.1	0	0	5	5
USD/JPY		104.4	0.1	0	1	4	4
EM/USD		54.7	0.8	1	0	-11	-11
Commodities			%				
Brent Crude Oil (\$/barrel)		41	2.7	4	4	-34	-38
Industrials Metals (index)		121	-0.9	1	6	2	6
Agriculture (index)		42	0.6	1	6	6	1
Implied Volatility			%				
VIX Index (% change in pp)		31.1	-4.5	-9.2	3.4	18.2	17.3
US 10y Swaption Volatility		76.8	-3.2	4.2	9.6	16.3	14.8
Global FX Volatility		8.7	0.0	-0.4	-0.4	2.2	2.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		149	-2.4	-20	-3	-5	-16
Italy		134	-1.3	-5	2	0	-26
Portugal		70	-0.2	-8	-6	12	7
Spain		73	-0.4	-8	-3	7	7

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

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## Emerging Market Financial Indicators

Last updated: 11/4/2020 8:14 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.66	0.3	1.1	2	6	5		3.3	-0.4	1	5	1	18
Indonesia		14565	0.1	0.4	2	-4	-5		6.6	-2.6	-3	-27	-50	-53
India		75	-0.5	-1.2	-2	-5	-5		6.0	0.6	3	-12	-76	-84
Philippines		48	0.0	0.0	0	4	5		3.6	3.7	6	-1	-69	-68
Thailand		31	0.0	0.7	1	-3	-4		1.5	0.4	1	3	-10	-13
Malaysia		4.16	-0.2	-0.2	0	0	-2		2.5	7.9	3	2	-87	-80
Argentina		79	0.0	-0.8	-2	-24	-24		50.7	13.4	206	989	-617	-1193
Brazil		5.70	1.0	0.9	-2	-29	-29		6.6	10.7	23	27	84	35
Chile		754	0.1	2.6	6	-2	0		2.7	-2.5	5	3	-69	-60
Colombia		3791	0.6	1.0	1	-12	-13		5.4	0.3	7	14	-33	-56
Mexico		21.02	0.4	1.3	2	-9	-10		6.3	5.6	19	16	-60	-68
Peru		3.6	0.6	0.4	0	-7	-8		4.0	-9.2	-11	-23	-47	-52
Uruguay		43	-0.1	-0.1	-1	-13	-13		7.6	1.7	21	19	-331	-329
Hungary		309	0.3	1.5	-1	-4	-5		1.7	-3.4	1	-1	59	54
Poland		3.87	0.4	1.8	-2	-1	-2		0.6	-2.3	0	-14	-118	-130
Romania		4.2	0.0	-0.1	0	3	3		3.0	-4.0	-19	-24	-82	-98
Russia		78.9	0.4	0.4	-1	-19	-21		5.9	-1.3	19	7	-39	-26
South Africa		16.0	0.1	2.1	3	-8	-13		10.2	-8.9	8	-8	57	69
Turkey		8.45	-0.6	-2.1	-8	-32	-30		14.5	16.9	45	175	227	280
US (DXY; 5y UST)		93	-0.2	0.0	0	-4	-3		0.35	-4.4	2	6	-124	-134

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		4814	0.8	2	5	21	18		211	0	-3	-7	34	35
Indonesia		5105	-1.1	0	4	-17	-19		217	8	0	-18	42	61
India		40616	0.9	2	5	1	-2		208	-1	1	-24	80	83
Philippines		6464	2.0	1	8	-20	-17		127	8	1	-16	51	61
Malaysia		1465	0.2	-2	-2	-9	-8		149	-2	0	-19	30	37
Argentina		47965	1.0	3	10	29	15		1444	11	-32	87	-836	-325
Brazil		95980	2.2	-4	2	-12	-17		305	11	-7	-28	83	90
Chile		3532	-1.4	-3	-4	-26	-24		178	12	2	-1	39	45
Colombia		1151	1.3	-1	-1	-30	-31		248	12	0	-14	72	85
Mexico		37466	1.3	-2	2	-14	-14		478	10	5	-29	167	186
Peru		17824	0.3	-2	0	-11	-13		154	12	2	-15	29	47
Hungary		34737	2.7	8	4	-19	-25		110	9	-2	-11	15	24
Poland		46673	-1.0	4	-5	-21	-19		18	4	1	-7	-10	0
Romania		8745	0.5	1	-2	-9	-12		237	-7	-3	-14	44	64
Russia		2786	0.0	1	-2	-5	-9		203	6	-1	-5	30	72
South Africa		53858	1.3	3	-1	-5	-6		479	11	-6	-50	152	159
Turkey		1169	1.5	1	2	17	2		656	10	16	39	209	255
Ukraine		500	0.0	0	0	-4	-2		660	8	-58	-64	203	240
EM total		45	1.6	-1	3	5	1		421	0	17	-10	97	128

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.