



- ECB keeps policy rate unchanged, opens door for further policy easing ([link](#))
- Low recovery rates may exacerbate US credit losses going forward ([link](#))
- US tax increases on investment income may benefit tax-efficient vehicles ([link](#))
- Japan's industrial production expands more than expected ([link](#))
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## Coronavirus concerns cloud outlook and weigh on markets

Markets are trading on the weaker side today amid continued worries about the rise in Covid-19 infection rates in major markets and concerns about the outlook for the tech sector following yesterday's earnings releases. Although the US's largest tech companies reported better than expected earnings, investors focused on weaker sales estimates in certain segments, which weighed on the performance of these stocks and subsequently on the overall market indices given their large weight. EM stocks are mostly down today (China: -1.5% and Korea: -2.6%), while European equities are slightly weaker (-0.3%) and US equity futures are pointing to a negative start. This follows steep declines in risk asset prices during the first half of the week, during which European and US stocks dropped by close to 6%. Since then however, risk sentiment has been somewhat supported by statements from the ECB and the US administration pointing to the possibility of increased policy support should economic and financial conditions continue to weaken. Over the past two trading sessions, yields on 10-Year Treasuries have risen by about 5 bps while those on Bunds have remained stable. Meanwhile, the Euro has weakened by about 0.65% against the Yen and the US dollar. Oil prices are trading laterally today after dropping by close to 10% over the week on concerns over a combination of weakening global demand and potentially increasing OPEC+ supply going forward.

Key Global Financial Indicators

Last updated: 10/30/20 8:34 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>							
S&P 500		3310	1.2	-4	-2	9	2
Eurostoxx 50		2949	-0.4	-8	-8	-19	-21
Nikkei 225		22977	-1.5	-2	-1	1	-3
MSCI EM		45	1.0	-2	3	6	1
<b>Yields and Spreads</b>							
US 10y Yield		0.82	-0.2	-2	14	-95	-110
Germany 10y Yield		-0.63	0.5	-6	-11	-28	-45
EMBIG Sovereign Spread		425	1	21	-8	90	132
<b>FX / Commodities / Volatility</b>							
EM FX vs. USD, (+) = appreciation		54.3	-0.1	-2	0	-11	-12
Dollar index, (+) = \$ appreciation		93.9	-0.1	1	0	-4	-3
Brent Crude Oil (\$/barrel)		37.6	-0.3	-10	-8	-38	-43
VIX Index (% change in pp)		38.1	0.6	11	12	26	24

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

## United States

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Markets were supported yesterday by the positive surprise from the release of the 3Q2020 US GDP figures. The S&P 500 was up 1.2% and the volatility index (VIX) declined by 4 points to 37. The US Treasury 10Y yield increased notably by 6 bps, with the change in the real yield equal 5 bps and only 1 bps attributed to the increase in breakeven inflation. US credit markets were virtually unchanged. The USD appreciated 0.5% versus major currencies.

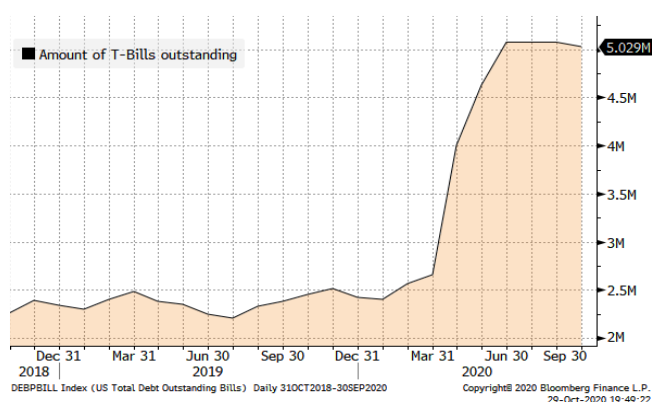
**September prints for the PCE and Core PCE Deflators were broadly in line with market consensus forecasts**, meeting analyst estimates on the m/m basis and coming in slightly below consensus on a y/y basis. There was no noticeable market reaction to the data release.

### Key US Economic Data 8.30 am October 30

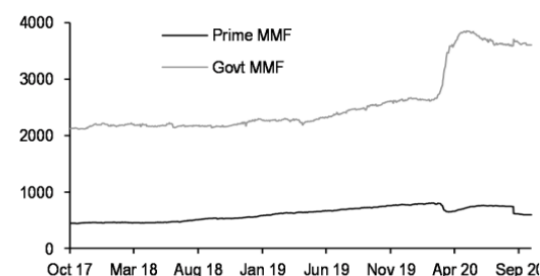
Source: Bloomberg

Report	Consensus Forecast	Actual Report
PCE Deflator MoM	0.2%	0.2%
PCE Deflator YoY	1.5%	1.4%
PCE Core Deflator MoM	0.2%	0.2%
PCE Core Deflator YoY	1.7%	1.5%

**The likely postponement of a new fiscal stimulus package until after the US election may help ease short-term liquidity conditions on prime Money Market Funds (MMFs).** While current headlines are often dominated by talk about how the size and timing of the package may affect market expectations and what is priced-in across asset classes, one should not overlook the fact that financing such a package requires placing an extensive amount of Treasury bills (T-bills), which could drain a significant amount of liquidity from the money market. At the end of February, T-bills outstanding quickly increased to around \$5 tn from 2.6 tn (left chart below). This contributed to a crowding-out of resources from prime MMFs that tend to be a main source of liquidity for the private sector (right chart below). As such, the likely postponement of the fiscal stimulus at the current juncture may help alleviate any such constraints on prime MMFs for the time being.



AUM of prime and government funds (\$bn)

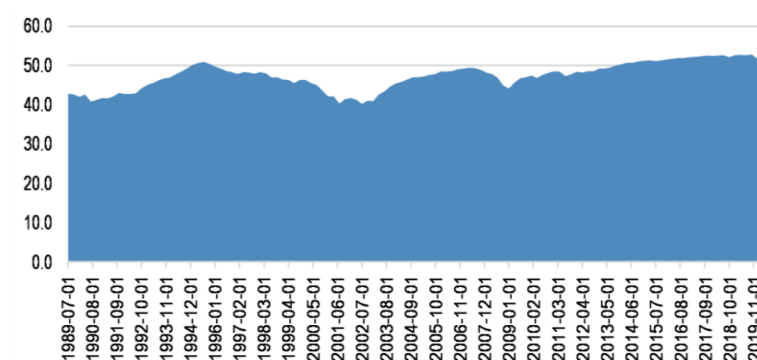


Source: iMoneyNet, JPMorgan

**Expectation of increases in capital gains- and dividend-tax rates for the wealthy following a “Blue Wave” may lead mutual fund investors to rotate their investments to more tax-efficient venues.** According to the St. Louis Federal Reserve, the Top-1% of households hold 52% of shares of corporate equities and mutual funds (left chart below). Therefore, a change to the tax code that meaningfully affects

the wealthy (making more than USD 1 mn a year) could significantly alter the landscape of the asset management business, especially given indications that the majority of their wealth is in taxable rather than non-taxable accounts. As passive venues such as ETFs are more tax-efficient in this context, active asset managers (e.g., T Rowe Price and Franklin Templeton) could face outflows towards managers with a more solid footprint in the ETFs segment (e.g., BlackRock). The recent stock performance of asset managers seems to reflect these investor concerns (right chart). Analysts also expect alternatives – such as Private Credit, Infrastructure and Real Estate –to benefit from the rotation from actively managed mutual funds.

Figure 1: Share of Corporate Equities and Mutual Fund Shares Held by the Top 1%

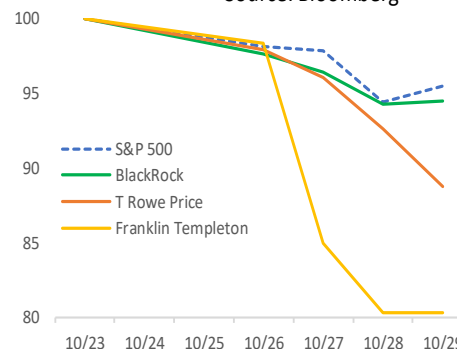


Source: Board of Governors of the Federal Reserve System, JPMorgan

Asset Managers' Equity Prices

Normalized, 23-Oct-2020 = 100

Source: Bloomberg

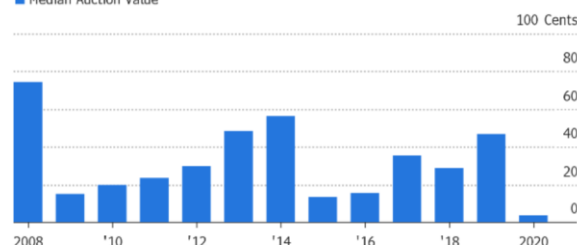


**Expectations of historically low recovery rates may exacerbate credit losses going forward.** The COVID-19 pandemic coupled with the significant loosening of credit standards during recent years have led to record low expected recovery rates on distressed credit. The median price recorded in CDS auctions for distressed debt dropped below 10% of face value in 2020 (left chart below). The main reason - COVID-19 shock - already led to a significant rise in the number of bankruptcies in 2020 (right chart). Even though large state support has helped to reduce the number of possible bankruptcy filings for the time being, a report by Fitch Ratings indicates that the pandemic could lead to a multiyear period of high default risk for U.S. loans and junk yield bonds. Analysts argue that the record low CDS auction prices have also been driven by the lack of proper creditor protection and strong covenants in credit agreements - a feature that became widespread during recent years of "search for yield" when investors chasing higher yields were ready to give up a lot of their bargaining power vis-a-vis borrowers as well as their ability to interfere during the early stages of borrower's distress. Adding on to that, the long-lasting trend of increasing corporate leverage dramatically reduced the ratio of post-bankruptcy remaining assets to outstanding debt.

#### CDS Sadness

Credit default swap auctions portend steeper-than-usual losses

■ Median Auction Value

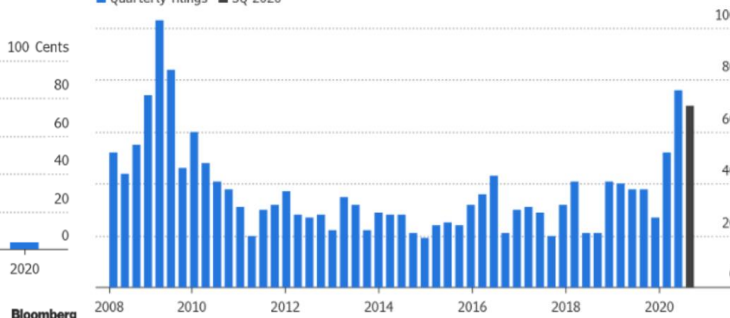


Sources: Creditex and Markit  
Note: data limited to U.S. companies

#### Going Bust Faster

Third quarter was worst on record for U.S. bankruptcy filings

■ Quarterly filings ■ 3Q 2020



Source: Bloomberg  
Note: Reflects Ch. 11 and 7 filings for public and private companies with liabilities >\$50M

Bloomberg

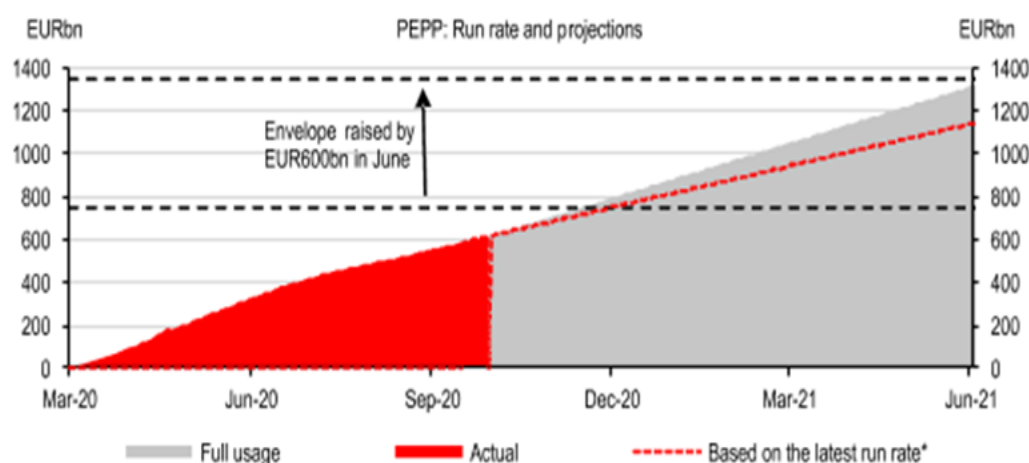
## Europe

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**After a weak open, European equities managed recover with most indices 0.3% above yesterday's close**, aided by better Q3 growth data. Energy shares (+1.3%) were outperforming the broader index. The euro (-0.12%) was stable while the sterling (+0.3%) recovered, aided by the positive Brexit sentiment. European bond markets were mostly stable following a strong rally in the Southern European bonds after yesterday's ECB meeting.

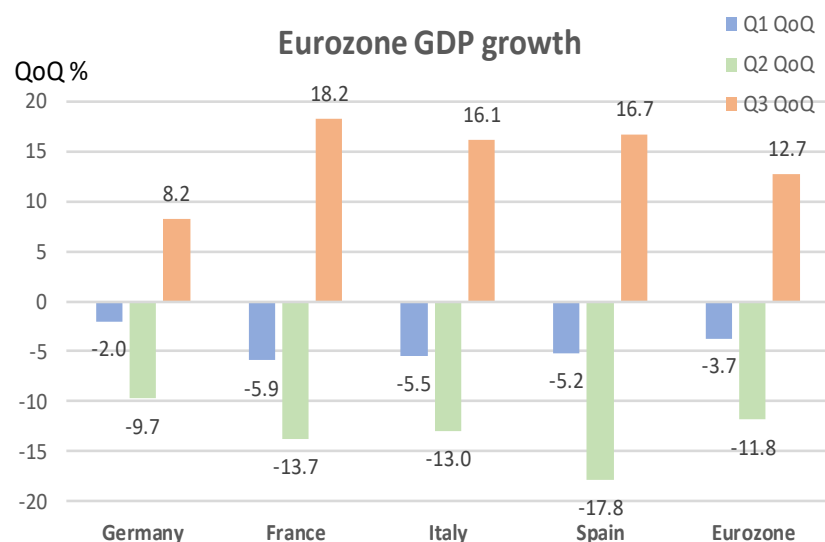
**The ECB maintained its policy unchanged while opening the door for further policy easing in December.** As broadly expected, the central bank confirmed the deterioration of the growth outlook and highlighted clear downside risks to its September projections. However, market participants were surprised by the explicit guidance around recalibration of policy stance as well as the ECB's willingness to consider all available instruments. **The meeting generated greater divergence among analyst with regards to the composition of the December policy package.** Prior to the meeting, the majority of analysts expected an extension and an increase of the Pandemic Emergency Purchase Program by around €500 bn. Multiple analysts have since revised that figure to the upside while also highlighting an increased likelihood of a simultaneous expansion of the Asset Purchase Program along with changes to TLTRO framework. Only few now expect a deposit rate cut at this stage. Market reaction was most notable in European sovereign spreads with Italy tightening by 5 bps after the meeting.

**Figure 1: There is still plenty of room under the current PEPP envelope**

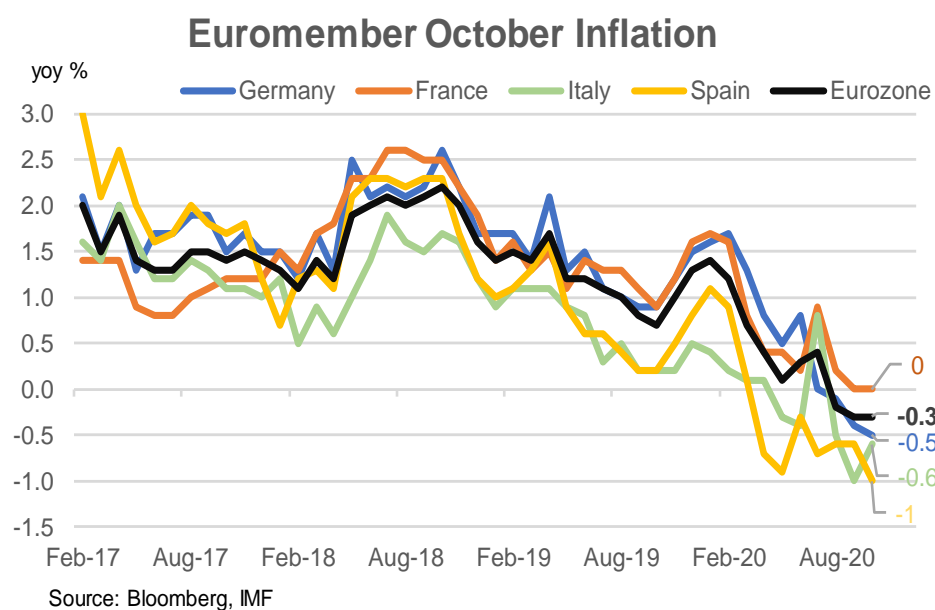


Source: HSBC, ECB. Note: \* Average daily purchase rate over the last two weeks.

**Eurozone Q3 GDP growth surprises with a strong rebound.** According to preliminary estimates, the contraction in the Eurozone aggregate GDP slowed to -4.7% y/y in Q3 from -14.8% in Q2 against a -7% consensus estimate. **The growth dynamics were better than expected in all four of the largest economies, with Italy delivering the biggest upside surprise.** Contacts pointed that while the data provide some extra cushion for the aggregate growth in 2020, investor attention is now firmly focused on Q4 lockdown effects as most analyst have now downgraded their final quarter projection by 0.5-1.5%. These revisions may be somewhat optimistic, especially in the context of the recent comments from the French finance minister Le Maire who suggested that France will aim to limit the loss of economic activity to 15% in the second lockdown.

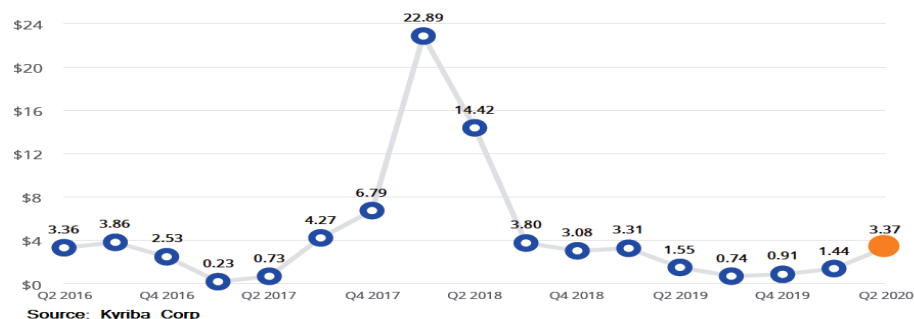


**Eurozone inflation remained unchanged in October in line with market consensus.** The Eurozone headline inflation remained at -0.3% y/y and core inflation at a historical low of 0.2% y/y. On the country level, France and Spain somewhat surprised to the downside while inflation came in slightly higher in Italy and Germany. Contacts pointed out that as with the GDP data, the impact of the upcoming lockdowns will remain the driving factor. Today's numbers would therefore have a limited impact on ECB's course in the December meeting.



**European companies reported \$3.37bn of currency related losses in Q2 2020 primarily driven euro volatility.** While losses more than doubled as compared to previous quarters, they were still far below the large figures reported in 2018, when the euro rapidly appreciated to 1.25 dollar per euro. As in Q1, the euro and Brazil real remain the main drivers of exposure. In contrast to previous quarters, the Danish koruna and the Swiss Franc have replaced the Mexican peso and China renminbi on the top of the list. The report is based on 350 multinational companies based in Europe.

### Negative Currency Impact to European Companies (Billions)



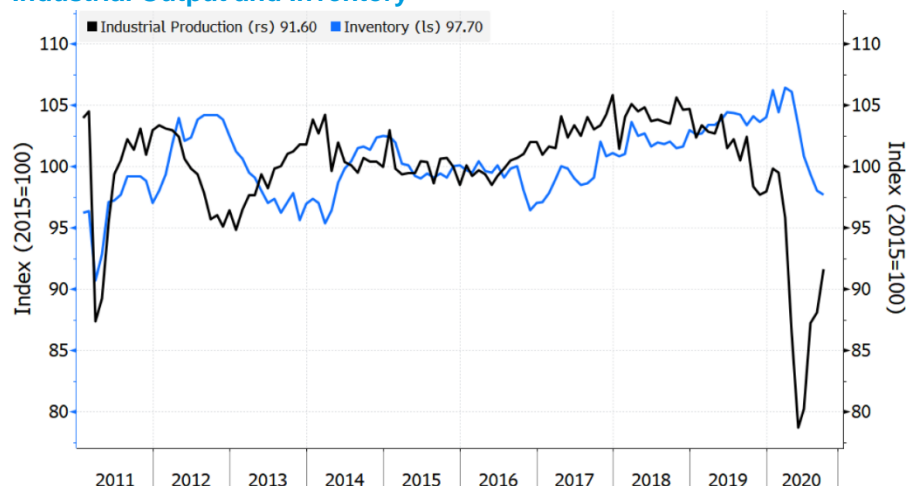
## Other Mature Markets

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### Japan

**Industrial production expanded more than expected in September.** Industrial production increased 4.0% m/m, beating an expected growth of 3%. On an annual basis, industrial production still declined 9% y/y. The increase was supported by stronger production of autos and integrated circuits. A recovery in exports was a major driver for a strong rebound in industrial production, while inventory continued to decline. **The unemployment rate remained steady at 3% in September** (versus 3.1% expected). Market analysts noted that the deterioration in the labor market has been relatively moderate considering the steep drop in corporate profits and expected further weakening toward year-end. Other activity indicators still pointed to a weak economic recovery. **Retail sales** declined 0.1% m/m in September, reversing a 4.6% growth in August. **Housing starts** declined 9.9% y/y in September, weaker than expected. Equities declined (NIKKEI: -1.5%) while the Japanese yen appreciated (+0.2%).

### Industrial Output and Inventory



Source: Bloomberg.

### Australia

**Markets expect the Reserve Bank of Australia (RBA) to further ease monetary policy next week.**

Markets are positioning for a cut in the cash rate from 0.25% to 0.1% and a lowering of the 3-year government bond yield target from 0.25% to 0.1%. Market participants also focused on whether and how the RBA would introduce QE. A launch of QE or guidance on longer-end yields would help ease appreciation pressures on the Australian dollar. Equities declined (-0.6%) and the Australian dollar slightly appreciated (+0.1%) against the US dollar.










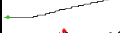
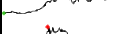




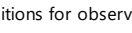
## Emerging Markets [back to top](#)

**In Asia**, stock markets declined today, led by Korean (-2.6%), Hong Kong (-2.0%) and Chinese (CSI 300: -1.6%) equities. The Philippine stock market was an exception, with rising share prices (1.2%). Asian currencies were mixed, with RMB appreciating (+0.4%) while Korean won depreciating (-0.3%) against the US dollar. In Korea, industrial production increased 5.4% m/m in September (versus 3.1% expected). In Singapore, the unemployment rate rose to 3.6% in 2020Q3, a 16-year high. In Hong Kong SAR, real GDP grew 3% q/q in 2020Q3 (versus 0.7% expected).

**In Latin America**, equities were mixed yesterday, with Brazilian stocks up 1.3% and Mexican stocks down 1.6%. Most regional currencies weakened modestly, with the Brazilian real and Mexican peso down by 0.5% and 0.4% against the US dollar, respectively. Government bond yields were mixed, with Brazilian yields down 3 bps and Mexican yields up 5 bps.

**In EMEA**, equities were mostly lower this morning with indices down in Poland (-2%), Turkey (-1.5%) and Russia (-0.5%). EMEA currencies were trading mixed with the Turkish lira (-0.7%) and the Russian ruble (-0.3%) depreciating against the US dollar, and the South African rand (+0.9%) appreciating.

Key Emerging Market Financial Indicators

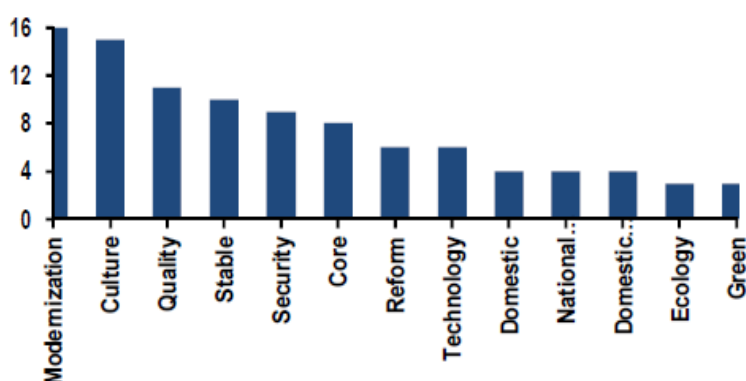
Last updated: 10/30/20 8:38 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		45.22	-0.8	-2	3	6	1
MSCI Frontier Equities		26.24	0.6	-3	3	-8	-14
EMBIG Sovereign Spread (in bps)		425	1	21	-8	90	132
EM FX vs. USD		54.27	-0.1	-2	0	-11	-12
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.68	0.5	0	2	6	4
Indonesian Rupiah		14625	0.2	0	2	-4	-5
Indian Rupee		74.11	-0.3	-1	0	-4	-4
Argentine Peso		78.30	0.0	0	-3	-24	-24
Brazil Real		5.76	0.4	-2	-3	-31	-30
Mexican Peso		21.29	0.3	-2	4	-10	-11
Russian Ruble		79.20	-0.4	-4	-2	-19	-22
South African Rand		16.27	0.8	-1	3	-8	-14
Turkish Lira		8.36	-0.9	-5	-8	-32	-29
EM FX volatility		11.64	0.0	0.7	-0.2	4.5	5.0

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

## China

**China aims to become a tech powerhouse with quality economic growth based on the new 5-year plan.** The fifth plenary session of the Chinese Communist Party's 19<sup>th</sup> Central Committee concluded yesterday. The meeting of high-ranking party members focused on discussing a new 5-year plan, which will be finalized next March. Based on initial details, the plan aims to develop China into a tech powerhouse and prioritizes quality growth over speed. No specific economic growth target was set. The plan emphasizes the need for: (i) innovation and self-sufficiency in technology; (ii) the digitalization of the economy; (iii) further development of domestic markets via boosting domestic demand and implementation of supply-side reforms; and (iv) promotion of green development.

Figure 1: High frequency words (2020 vs. 2015 5th Plenum)

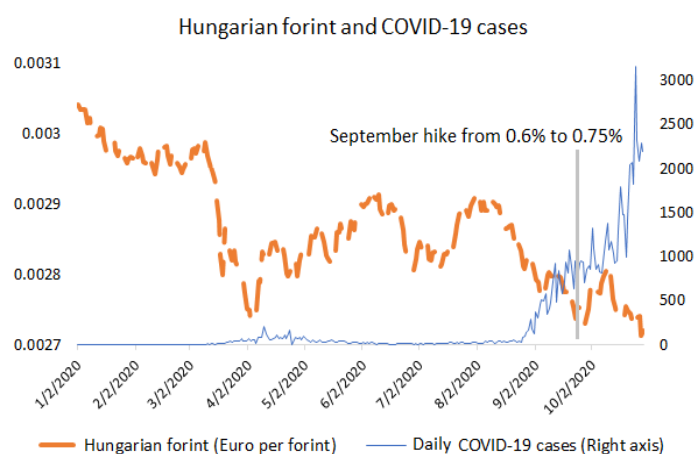


Source: Government reports, J.P. Morgan. Footnote: Ranked by the number of increase of appearance in 2020 5th Plenum's Communiqué than in 2015 Communiqué.

## Hungary

**The central bank left the one-week deposit rate at 0.75%, despite a recent weakening of the currency.**

A surge in COVID-19 cases has increased concerns about the pandemic's potential economic impact. Meanwhile, the forint has seen a series of declines against the euro recently, reaching a near record low level. These moves have reversed the appreciations in late September and early October, in the aftermath of the central bank's decision to increase the one-week deposit rate to 0.75% from 0.6% in September. With this earlier decision in September, Hungary has become one of the few countries in the world that have increased borrowing costs during the COVID-19 pandemic, while using unconventional easing measures to lower long-term rates. Interest rate forward markets are currently pricing in another 15 bps of tightening over the next three months, which is broadly consistent with market contacts views about the increased likelihood of another rate hike given the currency weakness.



Data source: Bloomberg

## Brazil

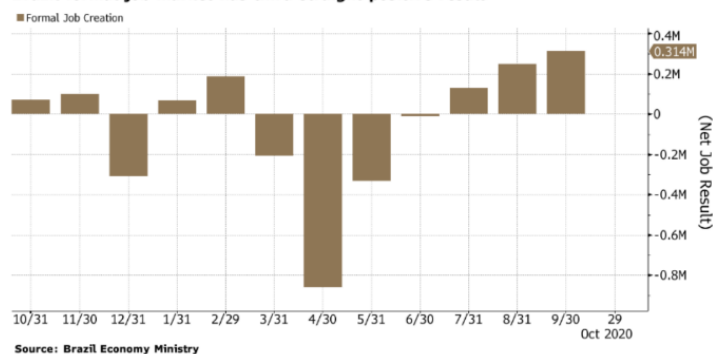
**Brazil's new formal jobs surged in September well ahead of expectations, based on Bloomberg reporting.** The number of new formal jobs reached record levels and surpassed all analysts' estimates in the Bloomberg panel. The September result is a third consecutive positive outcome (figure below from Bloomberg). The Brazilian labor market has been supported by large government spending, which helped mitigate the severe impact of the coronavirus. In particular, a job protection program helped boost the formal



labor market with job creation across sectors. Economy Minister Guedes said the report points to a V-shaped recovery from the lows seen in April. However, market commentators noted that the unemployment rate in the full (formal and informal) labor market is expected to increase in August in today's employment report.

### Labor Relief

**Brazil formal job market has third straight positive result**



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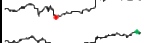






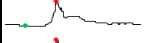



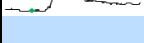

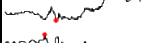








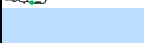



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## Global Financial Indicators






























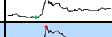

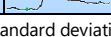






Last updated: 10/30/20 8:35 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3298	1.2	-5	-2	8	2
Europe		2949	-0.4	-8	-8	-19	-21
Japan		22977	-1.5	-2	-1	1	-3
China		3225	-1.5	-2	0	10	6
Asia Ex Japan		80	1.1	-1	3	15	8
Emerging Markets		45	1.0	-2	3	6	1
<b>Interest Rates</b>			basis points				
US 10y Yield		0.82	-0.3	-2	14	-95	-110
Germany 10y Yield		-0.63	0.4	-6	-11	-28	-45
Japan 10y Yield		0.04	1.0	0	3	15	5
UK 10y Yield		0.23	0.8	-5	0	-46	-59
<b>Credit Spreads</b>			basis points				
US Investment Grade		127	0.4	4	-8	6	29
US High Yield		430	-101.6	-70	-116	-21	37
Europe IG		66	1.7	11	6	14	22
Europe HY		371	5.1	42	25	134	164
EMBIG Sovereign Spread		425	1.0	21	-8	90	132
<b>Exchange Rates</b>			%				
USD/Majors		93.84	-0.1	1	0	-4	-3
EUR/USD		1.17	0.0	-2	0	5	4
USD/JPY		104.4	0.2	0	1	4	4
EM/USD		54.3	-0.1	-2	0	-11	-12
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		38	-0.1	-10	-8	-38	-43
Industrials Metals (index)		119	-0.2	-2	3	1	4
Agriculture (index)		41	0.1	-3	4	5	-1
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		38.1	0.6	10.6	11.8	25.8	24.4
US 10y Swaption Volatility		75.0	-0.2	1.7	29.6	7.4	13.0
Global FX Volatility		9.0	0.0	0.6	0.0	2.7	3.0
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		156	-2.7	6	1	1	-9
Italy		137	3.7	3	-2	2	-23
Portugal		73	-1.2	-2	-6	16	10
Spain		76	-1.1	-1	-1	12	10

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: 10/30/2020 8:38 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		6.68	0.5	0.1	2	6	4		3.3	0.5	-1	5	2	17
Indonesia		14625	0.2	0.2	2	-4	-5		6.6	0.0	0	-22	-51	-51
India		74	-0.3	-0.8	0	-4	-4		6.0	1.4	-3	-18	-81	-86
Philippines		48	0.0	0.2	0	5	5		3.6	-2.4	1	-8	-74	-73
Thailand		31	0.2	0.3	2	-3	-4		1.5	-0.1	-1	1	-14	-14
Malaysia		4.16	0.0	0.0	0	1	-2		2.5	0.0	2	-12	-98	-86
Argentina		78	0.0	-0.3	-3	-24	-24		50.0	89.6	347	821	-1157	-1257
Brazil		5.76	0.3	-2.5	-3	-31	-30		6.4	-2.2	20	21	61	14
Chile		771	0.3	0.8	2	-4	-2		2.7	-0.5	-1	-13	-64	-61
Colombia		3836	-0.7	-1.7	1	-11	-15		5.4	-3.7	10	26	-41	-60
Mexico		21.29	0.3	-2.0	4	-10	-11		6.2	7.4	4	12	-78	-78
Peru		3.6	0.0	-0.2	0	-8	-8		4.1	-2.9	-12	-9	-32	-41
Uruguay		43	-0.2	-0.7	-1	-13	-13		7.6	4.9	19	11	-363	-331
Hungary		315	0.0	-2.3	-2	-6	-6		1.7	-0.2	-5	-10	64	51
Poland		3.96	0.0	-2.7	-2	-4	-4		0.6	-1.4	-9	-16	-123	-132
Romania		4.2	0.0	-1.6	0	2	2		3.2	-1.0	-4	-10	-66	-83
Russia		79.2	-0.4	-3.8	-2	-19	-22		5.8	1.8	12	-13	-50	-36
South Africa		16.3	0.8	-0.5	3	-8	-14		10.2	1.4	10	-5	89	70
Turkey		8.36	-0.9	-4.8	-8	-32	-29		14.3	0.0	83	114	156	258
US (DXY; 5y UST)		94	-0.1	1.2	0	-4	-3		0.36	-0.8	-1	9	-124	-133

	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		4695	-1.6	0	2	21	15		212	-1	-2	-5	27	36
Indonesia		5128	0.0	1	5	-18	-19		219	2	7	-12	40	63
India		39614	-0.3	-3	4	-1	-4		209	2	3	-24	82	84
Philippines		6324	1.2	-2	8	-21	-19		127	2	2	-11	43	61
Malaysia		1467	-1.9	-2	-2	-7	-8		152	1	6	-13	32	40
Argentina		44914	3.2	-13	9	33	8		1490	5	65	191	-763	-279
Brazil		96582	1.3	-5	2	-11	-16		315	3	12	-21	86	100
Chile		3583	-1.3	-6	-2	-24	-23		177	1	11	-5	41	44
Colombia		1131	1.0	-4	-3	-31	-32		250	2	9	-12	70	87
Mexico		36801	-1.6	-5	-2	-16	-15		480	5	5	-27	186	188
Peru		17706	0.2	-2	-1	-10	-14		152	1	3	-18	23	45
Hungary		32359	1.0	-4	-2	-24	-30		110	3	5	-10	12	24
Poland		43893	-2.1	-8	-11	-25	-24		15	0	1	-12	-16	-3
Romania		8519	-0.4	-3	-5	-12	-15		240	-4	8	-18	60	66
Russia		2696	-0.5	-4	-7	-7	-11		206	1	12	-5	25	75
South Africa		51739	-0.4	-7	-5	-7	-9		481	4	6	-60	154	161
Turkey		1101	-2.4	-8	-2	10	-4		644	7	36	11	190	243
Ukraine		501	0.0	0	0	-4	-2		696	-7	-21	-39	231	276
EM total		45	-0.8	-2	3	6	1		425	1	21	-8	90	132

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

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