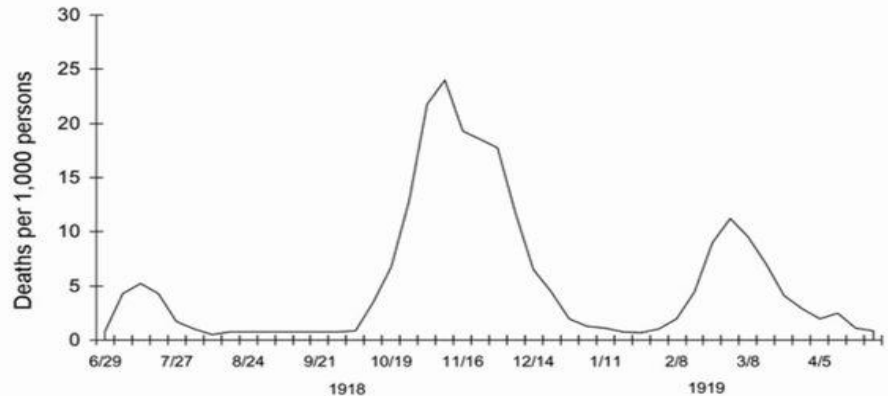


MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
By Brunello Rosa



Anaemic Growth and Volatile Markets Suggest Investors Should Focus on Long-Term Horizon

This week, the annual meetings of the International Monetary Fund (IMF) and the World Bank will begin. Though large component of the scheduled events will take place virtually, the IMF will still be releasing the latest edition of its World Economic Outlook (WEO), which includes updated estimates of growth and inflation for the vast majority of the economies of the world. [According to the Brookings – FT tracking index](#), the recovery will remain [fragile and patchy](#). This is in line with the [column we published on 28 September](#), titled “Covid’s Second Wave Threatens Economic Recovery and Market Stability.”

This is also in line with our latest [Global Outlook Update - Market Views - Q4-2020 Strategic Asset Allocation](#), titled “Volatility To Create Opportunities, While Investors Keep Focus On The Long Term”. In that report we discussed how the Covid pandemic was likely to come in at least two, if not three, waves, the same way the “Spanish flu” pandemic did in 1918-19. [In our analysis](#), we discussed how the second wave was the most deadly of the three waves during that pandemic a century ago. Given the rise in cases registered globally in the last few weeks, it is clear we are at the beginning of the second wave of the current pandemic. We cannot rule out there being a third wave in the months ahead, if the vaccine is not found before Q1 2021 (as we assume in the baseline scenario of our Global Outlook Update).

Our report also discusses how we expect global growth to be worse than had been estimated by the IMF in June (we expect -5.3% growth, vs the -4.9% the IMF estimated), with the rebound in 2021 more anaemic as well. As a result, monetary and fiscal accommodation will still be required. In terms of fiscal policy, most governments will continue to provide protection to companies and individuals, but, [as UK Chancellor of the Exchequer Rishi Sunak said in parliament at the end of September](#) governments will not be able to save every company and every job. In Europe, where the institutional setting remains more fragmented, the approval and implementation process of the Next Generation EU plan is now encountering some difficulties, which [might delay the arrival of its funds further into 2021](#).

For this reason, monetary policy needs to remain highly accommodative. Following the Fed’s de facto [promise of keeping rates extremely low for a much longer period of time](#), all other central banks are reacting, both in developed and emerging markets. In the G10 sphere, we expect imminent moves (in November) from the [Bank of England](#), the [Reserve Bank of Australia](#) and the [Reserve Bank of New Zealand](#), featuring a combination of rates cuts, revised forward guidance, larger asset purchases and new credit-easing facilities. Negative policy rates have started to enter the radar screen of the central banks in [the so-called Anglosphere](#) (the US, UK, Canada, Australia, and New Zealand), which so far have been the most reluctant to adopt them.

Through all of this, markets remain volatile, with equity markets having just experienced the second week of a rebound after four weeks of market losses. Meanwhile we are entering the most delicate part of the US electoral campaign, which could culminate in a 10% correction in equity markets in case of a highly contested result. In this volatile environment, strategic asset allocators should focus on longer-term investment horizon.

Our Recent Publications

[Flash Review – RBA Ratchets Up Its Rhetoric Ahead of More Easing, Likely In November](#), by Brunello Rosa and Fawaz Al Mughrabi, 6 October 2020

[Flash Preview: RBA To Remain On Hold In October, While Reiterating Its Further Easing Options](#), by Brunello Rosa and Karmen Meneses, 2 October 2020

[ASSET ALLOCATION: Volatility To Create Opportunities in Q4, While Investors Keep Focus On Long Term](#), by Alessandro Magnoli Bocchi and Fawaz Sulaiman Al Mughrabi, 1 October 2020

[GEOPOLITICAL CORNER: The Abraham Accord Marks A Sea Change In The Middle East](#), by John C. Hulsman, 7 October 2020

Looking Ahead

The Week Ahead: US CPI Inflation And EZ Economic Sentiment Expected To Decline

In the US, in September CPI inflation is expected to marginally decline to 1.2% y-o-y (p: 1.3). Retail sale growth is expected to decline (p: 2.6% y-o-y) while consumer sentiment is expected increase to 81 points (p: 80.4).

In the EZ, October's economic sentiment is expected to decline to 70.5 (p: 73.9).

The Quarter Ahead: Geopolitical Tensions Rise, Stagnation Ahead; Central Banks To Remain Supportive

Mr. Joe Biden is polling ahead of President Trump in key battleground states. After the 'Commission on Presidential Debates' decided to "hold the next Presidential debate virtually", President Trump said he "will not take part". As Taiwan's opposition party made efforts to re-establish diplomatic ties with the US: i) the Chinese military stepped up activity near Taiwan; and ii) Beijing affirmed its "intention to reunite [it] with the mainland, by force if necessary". The US national security adviser Robert O'Brien warned China against any attempt to retake Taiwan by force, saying 'there is a lot of doubt about the US response'.

In the US, President Donald Trump: i) returned to the Oval office after his brief hospitalization due to Covid-19; ii) abruptly halted the negotiations with Democrats on the fiscal stimulus package; but iii) renewed his efforts to pass individual 'coronavirus relief measures'. Democratic House speaker Ms. Pelosi rejected the White House offer, as it "falls short on coronavirus testing, worker safety and child care". Minutes of the FOMC's September 16 meeting showed that participants noted "it would be appropriate to further assess and communicate how the committee's asset-purchase program could best support the Fed's dual-mandate objectives". The readiness of key officials to re-examine the bond-buying program signals openness to altering or increasing the purchases - as a way to bolster the economy's slowing recovery.

In the EZ, confidence will likely be hit by a second wave of infections; as the recovery slows, the ECB is expected to provide further liquidity. At the October 15-16 summit, the EU will assess progress on the 'Brexit-deal'. Despite positive messages from Britain, officials in Brussels offered a gloomy assessment of the deal prospects.

Last Week's Review

Real Economy: The Economic Recovery Is Still Fragile; Stimulus Needed To Support Growth

In the US, in September the ISM Non-Manufacturing PMI rose to 57.8 (c: 56.3; p: 56.9), the fourth straight month of expansion, as the economy picks up from the coronavirus hit - with the highest increases in: i) business activity; ii) new orders; and iii) employment. In the week ending on October 3, the number of claims for unemployment benefits rose by 840k (c: 820k; p: 849k) - the sixth consecutive week above the 800k level - highlighting a slowdown in the labor market's ongoing recovery.

In the EZ, August retail sales grew by 4.4% m-o-m (c: 2.4%; p: -1.8%) and 3.7% y-o-y (c: 2.2%; p: -0.1%), the most since November 2017 - as most countries benefitted from the relaxation of COVID-19 containment measures.

In Japan, in August 'household spending' dropped by -6.9% y-o-y (c: -6.9%; p: -7.6%).

In Australia, during its October meeting: i) the RBA left its cash rate unchanged at the record low of 0.25%; and ii) policymakers reiterated their commitment to "do whatever we can to support jobs, incomes, and businesses".

Financial Markets: Best Week In 3 Months For US Stocks; Bonds Stay Flat; Oil And Gold Up

Market drivers: despite conflicting signals, investors grew more optimistic about: 1) a new round of fiscal stimulus in the US; and 2) coronavirus treatments. As global stocks rose w-o-w (MSCI ACWI, +3.6%, to 585), the S&P 500 Index recorded its best weekly gains in three months (+3.8% to 3,477). European shares also rose (Eurostoxx 50, +2.6% to 3,273) on hopes that both the US government and the ECB would pass additional stimulus measures.

Fixed income: w-o-w global bond returns remained flat (BAML Global, -0.1% to 297.4); in the US, w-o-w the yield on the benchmark 10-year UST rose (UST, +8 bps to 0.78%) to hit its highest level in four months, driven by renewed hopes for a stimulus deal.

FX: w-o-w, the USD lost against most currencies (DXY, -0.8% to 93,057; EUR/USD, +0.9% to 1.182); the TRY remained under pressure, falling further (USD/TRY -1.1% to 7.857) - due to: i) increased regional tensions; and ii) geopolitical concerns.

Commodities: for first time in 3 weeks, oil prices climbed (Brent, 9.1% to 42.9 USD/b), driven by China's economic recovery, despite the pandemic continuing to: i) cloud the outlook for oil demand; and ii) stoke oversupply concerns. Gold rose (+1.6% to 1,929 USD/Oz.) - maintaining its safe-haven appeal.



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Farah Aladsani contributed to this Viewsletter The picture in the front page comes from Taubenberger JK, MorensDM. 1918 Influenza: the Mother of All Pandemics. Emerg Infect Dis. 2006;12(1):15-22



Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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