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US Financial Markets - The Week in Review

21 September 2020

Economic and political backdrop

The US

Last week started off on a strong note, helped by news on Monday of Gilead Sciences' USD 21 billion acquisition of Immunomedics and chipmaker Nvidia's USD 40 billion purchase of ARM Holdings. Software giant Oracle reported on Tuesday it had reached an agreement to operate Chinese-owned TikTok in the US, although exactly how much control it would have over the social media application remained unclear. Indeed, late in the week it was reported that the Trump administration would reject the deal and was planning on banning downloads of the application in the US.

Some encouraging COVID-19 vaccine news also seemed to boost sentiment. Over the previous weekend, Pfizer's CEO said in an interview that the company could begin distributing a vaccine in the US before the end of the year, while AstraZeneca announced it was resuming trials of its leading vaccine candidate in the UK. Robert Redfield, the head of the Centre for Disease Control and Prevention, told a congressional panel on Wednesday that a vaccine would not be widely available until the middle of next year, but Mark Meadows, the White House chief of staff, insisted on Thursday that roughly one-third of the population could be vaccinated starting as soon as October.

The Federal Reserve's two-day policy meeting, which concluded Wednesday, seemed to weigh on sentiment and may have drained the week's stock market gains. The post-meeting statement and economic projections revealed that policymakers expect official short-term rates to remain near 0% through 2023, while they tempered their expectations for the size of the economic contraction in 2020 from 6.5% to 3.7%. However, investors seemed disappointed by the lack of details in the Fed's updated rate guidance and by the central bank making no changes to its quantitative easing (QE) programme. Lingering fears that the Fed's extreme monetary accommodation had reached the limits of its influence appeared to weigh on the market. Indeed, Fed Chair Jerome Powell repeated his call for a stronger fiscal response to help the recovery.

The week's economic data came in mixed. Core retail sales (which exclude purchases at gas stations, auto dealers, building supply stores, and food services suppliers) fell 0.1% in August, while July's robust gain was revised lower (to 0.9% from 1.4%) – offering evidence to some that the expiration of extended unemployment benefits was threatening the recovery. Weekly continuing and initial jobless claims hit new pandemic lows but remained elevated, at 12.6 million and 860,000, respectively. Overall housing starts in August missed expectations, but starts of single-family homes remained robust, and building permit data were encouraging.

On Friday night, US Supreme Court Justice Ruth Bader Ginsberg passed away, leaving a spot open on the court and escalating political tensions before an already contentious upcoming presidential election.

Equity markets

The S&P 500 finished the week down 0.6% (4.5% YTD). Equities were mixed for the week, with merger news and some renewed COVID-19 vaccine optimism seemingly offset by worries that the Fed's monetary policy was becoming less effective in supporting the recovery. Value stocks and small-caps outperformed, as investors continued to reduce bets on some of the internet and information technology giants that have led the market in recent months. Russell 1000 Growth returned -0.8% (20.2% YTD), Russell 1000 Value 0.5% (-10.3% YTD) and Russell 2000 2.7% (-6.7% YTD).

Energy stocks led the gains within the S&P 500, helped by a large and unexpected drawdown in domestic oil inventories and Saudi Arabia's efforts to force production cuts by other major oil exporters. Communication services stocks were among the worst performers, dragged down by Facebook shares following reports that the Federal Trade Commission was preparing antitrust action against the company. Trading volatility was heightened Friday by the quarterly phenomenon known as "quadruple witching," when four types of stock options and futures expire simultaneously.

Fixed income markets

The 10-year US Treasury yield ended modestly higher for the week at 0.70%, up from 0.67%, attributed in part to the Fed's failure to provide guidance about the average duration of its asset purchases as part of its QE programme.

It was an active week for investment-grade corporate bond primary issuance, with strong demand for new deals. California utilities experienced weakness and spread widening due to the risks posed by wildfires. Credit spreads narrowed across most market segments, and the volume of new deals was broadly in line with expectations.

Meanwhile, sellers raising cash to fund purchases of new issues supported balanced trading activity in the high yield market. Overall market sentiment seemed to improve as the Fed's statement was viewed as supportive for the high yield asset class due to the prolonged outlook for low interest rates. Credit spreads narrowed marginally, and below investment-grade funds industrywide reported positive flows.