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- October in election years is a cold month for stocks
- ECB to consider inflation overshoot in echo of Fed strategy
- Oil's role as long-term read on global growth is diminishing
- The rise of retail trading is reshaping markets
- Energy looks increasingly like a paria
- Is electric aviation ready for takeoff?

Dear investor,

- **Weakening appetite for risk**, with uncertainty seeping in about the prospect of further U.S. fiscal stimulus to support the world's biggest economy, valuation concern after a five-month rally, and a worsening pandemic, especially in Europe, have all buffeted stocks (-2.6%) since the beginning of September.
- The outperformance of U.S. stocks over peers in most of the globe - **the so-called "America first" trade - is stumbling as investors prepare for higher volatility in a historically tough election season** for domestic stocks that has only been exacerbated by uncertainty over resurgent coronavirus cases.
- Some $20 trillion of stimulus from governments and central banks has pulled the world's economies most of the way back to pre-pandemic levels. But the best seems already over for a global economic recovery that started off at a sprint and is turning into a slog as it is not clear how much more governments are willing to borrow and spend to complete the recovery. **Washington holds the key to the next big move in equities**, as additional fiscal and monetary stimulus are needed to sustain the rally through the winter.

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Thierry Masset, Chief Investment Officer ING Belgium

Our latest publications on the coronavirus crisis

EQUITIES

October in election years is a cold month for stocks


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The outperformance of U.S. stocks over peers in most of the globe - the so-called "America first" trade - is stumbling as investors prepare for higher volatility in a historically tough election season for U.S. stocks that has only been exacerbated by uncertainty over resurgent coronavirus cases.

Weakening appetite for risk, with uncertainty seeping in about the prospect of further U.S. fiscal stimulus to support the world's biggest economy, valuation concern after a five-month rally, and a worsening pandemic, especially in Europe, have all buffeted stocks (-2.6%) since the beginning of September. The S&P 500 index recorded its worst period since December 2018 relative to a gauge of global equities that excludes U.S. stocks (-2.6%). Sure, the bump in the road for the "America first" trade that has worked for most of the past decade could disappear once the election season is over. For now at least, uncertainty over a contested election grows, as Donald Trump has all but promised to dispute the election outcome if he loses. Wall Street's taking him at his word. Volatility markets from stocks to currencies and bonds show investors bracing for turbulence not just on election day, but for the ensuing weeks as well. The fear is that results from the November 3 vote - already the most expensive event to hedge against, ever - won't be clear enough that a winner emerges without a protracted legal battle. If that happens, the potential for political chaos or constitutional crisis and prolonged uncertainty is seen as a bigger risk for equity markets than who actually wins the vote.
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BONDS

ECB to consider inflation overshoot in echo of Fed strategy


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European Central Bank (ECB) President Christine Lagarde said it is worth examining a Federal Reserve-style strategy that allows inflation to temporarily rise above the institution's target. That suggests central banks will keep monetary policy looser for longer and investors will have to take more credit risk in return of higher yield.

Will the ECB follow the strategy adopted by the Federal Reserve, which has agreed to start targeting an average inflation rate of 2%, giving it room to overshoot? The question is on everyone's lips since ECB President Christine Lagarde said last month that a policy of committing to make up for low inflation "could be examined" as part of the institution's strategic review. Lagarde's remark is arguably the strongest signal yet that the ECB could change its goal, after falling short of the "below, but close to, 2%" aim for years despite massive monetary stimulus. While the ECB has pledged to buy as much as €1.35 trillion in government bonds and other assets under a pandemic emergency program, and is widely expected to announce a boost by the end of the year, the record recession caused by the outbreak has compounded the challenge. The 19-nation Euro-Area reported last month the steepest decline in consumer prices in more than four years (-0.3%). At the same time, core inflation fell to a record-low 0.2%! Weak price pressures show there is no room for complacency for monetary authorities. Allowing inflation to temporarily rise above the ECB's target " can strengthen the capacity of monetary policy to stabilize the economy when faced with the lower bound, Lagarde said. This is because the promise of inflation overshooting raises inflation expectations and therefore lowers real interest rates." What it means for bond markets is that investors will be tempted to abandon cash and safest bonds holdings as corporate bonds offer better returns.
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OTHER ASSET CLASSES

Oil's role as long-term read on global growth is diminishing

While commodities bounced back from the Coronavirus selloff (+10.4% in euro), Brent is down 40% this year despite deep producer supply cuts. That is a function of two factors. First, it signals weak near-term growth. And second, it is part of the structural shift away from crude in the world's energy mix. It is the second factor that will make the demand and price of oil less significant as a barometer of growth in the long term, contrasting with it is use as a short-term read on growth.

Looking at what oil is telling us about the near-term, supply and demand dynamics don't favor a rebound in prices and a strong economic recovery. OPEC and its allies are facing budget pressure to open the taps into 2021, probably at a pace faster than consumption will justify. WTI and Brent crude's three-month time spreads (-$3) still indicate an oversupply of oil as they are nearing the widest "contango" - where prompt prices are cheaper than later-dated ones - since late May! In the long term, however, oil seems less significant as a recovery gauge. The pandemic has accelerated an ongoing structural trend that disfavors companies whose value is largely tied to capital expenditures. The longer this new world order of limited travel continues, the more likely it is the behavior will become ingrained into our way of life, permanently reducing the long-term demand for crude from pre-pandemic levels. The integration of environmental, social and governance ("ESG") criteria in investment processes also turned into a game changer for oil with electric vehicles and renewable energy becoming a larger part of climate change-related commitments. Should this structural shift away from crude continue to weigh on demand, crude oil's place in the global economy could diminish. For now, it continues to play a key role in the recovery, and the backslide in prices doesn't paint a rosy outlook!

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IN THE NEWS

The rise of retail trading is reshaping markets

It used to be difficult to trade stocks. Now it is basically as easy as downloading an app or sending a tweet. And what is more, it is completely free. As a result, trading by individuals accounts for a greater chunk of market activity in the U.S. than at any time during the past 10 years and evidence shows their influence on stock prices. Some call it the democratization of investing. Some call it dangerous…
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Energy looks increasingly like a paria


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Once a top sector in Europe, oil struggles to fight its way out of the rout. Shrinking demand and the collapse in crude prices are keeping dividends at risk, while decarbonization means "Big Oil" must find new ways to attract investors.
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Is electric aviation ready for takeoff?


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Rising urbanization and the need for innovative mobility options is driving development of aircraft for city use. Urban air mobility solutions to fly people around cities, and to and from suburbs are being tackled with a variety of configuration of electrical vertical take-off and landing aircrafts.
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