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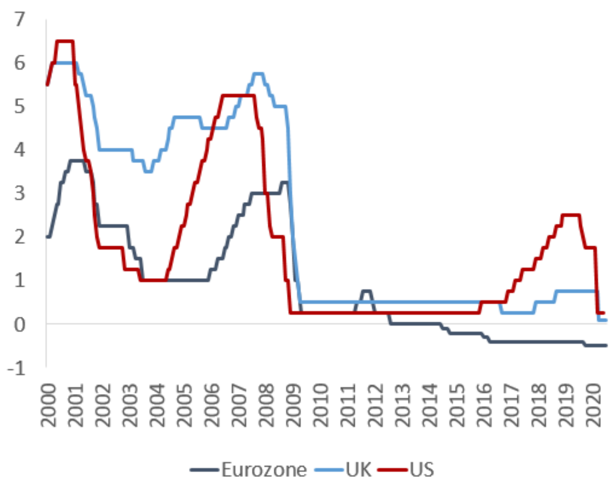
Markets in a Minute

22 September 2020

Virus news worsens, hitting shares

Equity markets were slightly up or flat last week as headwinds from the coronavirus combined with bleak outlooks from central banks as they confirmed that interest rates will stay at near zero for the foreseeable future to help boost growth. There is growing speculation that the Bank of England may introduce negative interest rates next year.

Major central banks' policy rates (%)



Source: Refinitiv datastream

The news flow on Covid-19 has worsened over the week, with The World Health Organisation saying last Thursday that infections were spreading across Europe at “alarming rates”. On Friday, the regional government of Madrid ordered a lockdown of neighbourhoods across the city, prohibiting all but emergency movement in or out.

In France, authorities in Nice have clamped down on gatherings of more than 10 people in public spaces and cut bar operating hours following restrictions imposed earlier in the week in Bordeaux and Marseilles. On Friday, the UK government said it was considering new measures including a possible second lockdown as cases surged to more than 4,000 a day.

Last week's markets performance*

- FTSE100: -3.6%
- S&P500: -0.64%
- Dow: -0.02%
- Nasdaq: -0.55%
- Dax: -0.65%
- Hang Seng: -0.19%
- Shanghai Composite: +2.38%
- Nikkei: -0.19%

**Data for the week to close of business, Friday 18 September.*

Markets dive as second-wave reality bites

There was a broad-based sell-off on equity markets on Monday as news over the weekend pointed to stricter containment measures in the UK and Europe and the possibility of another national lockdown in Britain.

Equity markets were sharply down across the board, with the FTSE100 closing down 3.4% at 5,804.2 while the German Dax fell by 4.37%, and the CAC 40 in France dropped 3.74%.

In the US, all indices trimmed heavy losses earlier in the session but still closed down. The Dow Jones Industrial Average lost 1.84% at 27,147.70, while the S&P 500 fell by 1.16% and the Nasdaq dropped just 0.13% to 10,778.80.

In early trading on Tuesday morning, UK and European equities were heading up.

Speculators adding to volatility?

Covid-19 aside, yesterday's big market moves may have been exacerbated by the expiry last Friday of large numbers of derivatives, which are often used to speculate on short-term share-price movements. When organisations sell derivatives such as ‘call options’, it forces them to buy the actual shares to ‘cover’ their positions. When the options expire, it often means millions of shares are then dumped on the market at the same time as companies offload their holdings, which can lead to heightened volatility.

Covid-19 news

Boris Johnson has announced a 10pm curfew on pubs and restaurants that will take effect from Thursday. The UK government is once again encouraging home working in a bid to stem the rising tide of infections as we head into winter.

The move follows the UK's chief scientific advisers' briefing on Monday. During the briefing, they said that the number of cases was doubling roughly every week and, if left unchecked, could lead to 50,000 new cases a day by October and more than 200 daily deaths in November, unless action was taken to "limit interactions between households".

The briefing was clearly intended to prepare the public for more lockdowns and quarantines. It also looks like the extension of the businesses support programmes has been timed to help companies that will be hit by any fresh lockdowns or are forced to limit their hours under new curfew rules.

Government to extend support for businesses?

Chancellor Rishi Sunak is reportedly planning to extend the government's series of business support loans in the face of a worsening second wave of infections and a cliff-edge end to the employee furlough scheme next month.

Mr Sunak is this week expected to say he will extend four government-guaranteed loan schemes until the end of November, with banks permitted to process the loans until the end of the year.

The decision to extend state support comes as the country faces more localised lockdowns, curfews and possibly a national lockdown as the spread of the virus accelerates across the country, and across all age groups.

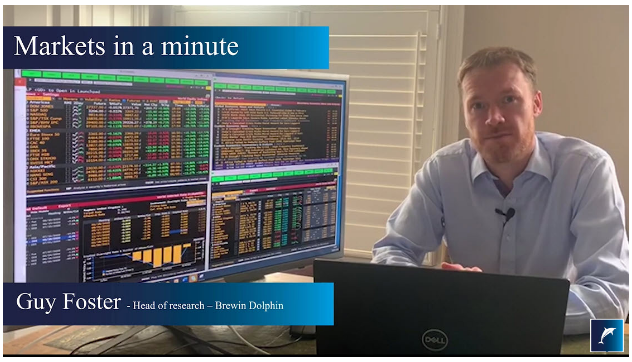
Unfortunately, there is no sign of a breakthrough on the deadlocked talks in the US on a new stimulus package. Millions of cash-strapped households and businesses may now have to wait until after the election for any extra financial assistance.

US election update

Democratic candidate Joe Biden is still the favourite just as Clinton was four years ago at this stage. The national polls were right in 2016 in that Clinton won the popular vote, but the electoral college system fell in Trump's favour due to state level polls underestimating his strength in some of the tightest states, and "undecideds" leaning largely for Trump.

The House of Representatives will remain in Democratic hands but the odds of them taking the Senate are much more finely balanced.

There is also the question of whether the election could be contested if Trump loses. The short answer is yes and the likelihood of it happening will be driven by how tight state-level results are and how significant the postal votes are (as Trump claims these are prone to fraud).



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