Market Comment – October 2020

Emerging Markets

The MSCI Emerging Markets (EM) Index increased 2.1% despite a month-end sell-off. EM equities were among the best-performing asset classes in October led by strong performance from Chinese stocks. Investor anticipation of a Joe Biden victory in November's US presidential election – and expected de-escalation of the trade war with China – further boosted sentiment. The index echoed other equity markets towards month-end, as investors feared increased global coronavirus cases and new lockdown restrictions in Europe. Oil prices declined over the month on the back of demand concern.

Best performers

China (+5.3%) was the standout performer in October. The renminbi appreciated as investors hoped for improved diplomatic relations and increased trade with the US if President Trump loses the November election to Democrat challenger Joe Biden. The communication services (Tencent) and consumer discretionary sectors performed well as the country continued its coronavirus recovery. The GDP growth rate improved to 4.9% YoY in the third quarter – below expectations but the second-successive quarter of positive growth and a stark contrast to other economies. Other positive data for September included the fourth-successive monthly increase in exports (9.9% YoY) and the largest increase in industrial production since December 2019 (6.9% YoY).

Mexico (+2.3%) outperformed in a strong month for the peso. The currency was propped up by US election optimism and an internal investment drive. The third quarter GDP growth rate was better-than-expected at -8.6% YoY, up from the record 18.7% contraction in the previous period. Retail sales (-10.8% YoY in August) and industrial production (-9.0% YoY in September) improved but remained at weak levels.

Smaller constituents including Indonesia (+8.7%) and the Philippines (+7.9%) also outperformed the broader index return.

Weakest performers

Turkey (-12.6%) and Russia (-8.6%) remained among the weakest-performing countries. The Turkish lira reached a new all-time low against the US dollar on the back of the central bank's refusal to raise its interest rates and heightened US sanctions risks. The central bank insisted it was doing everything possible to arrest the lira's decline. The country also tested its new Russian air defence system – a move the US had previously warned would lead to economic sanctions. Meanwhile, the Russian rouble depreciated to its lowest since March against the US dollar amid low oil prices. An anticipated cooling in relations with the US if Joe Biden became US president also weighed on sentiment towards the country. The central bank kept rates held at 4.25% as widely expected. Similarly, in Brazil (-2.5%), the country's central bank held interest rates at an all-time low of 2.0%.

Numerous countries recorded positive absolute returns but lagged the benchmark return, including Taiwan (+1.3%), South Africa (+0.5%) and the United Arab Emirates (+0.6%). In India (+1.1%), the government introduced plans to add a further $10 billion into the economy in order to combat the effects of the coronavirus. Industrial production improved but missed expectations in August (-8.0% YoY) while the inflation rate rose to 7.34% YoY in September (highest rate since January).

Korea (+0.6%) was boosted by positive economic growth data. The economy contracted 1.3% YoY but recorded its steepest quarterly increase since 2010 (1.9% QoQ). Industrial production (8.0% YoY) and exports (7.7% YoY) also beat expectations for September.

Factor performance

Small caps lagged large cap stocks this month. Growth further extended its outperformance over value, led by large cap growth names. Momentum also extended its strong year-to-date performance. Quality, low volatility and high dividend yielding stocks underperformed the broader index return.

Communication services (+6.3%) was the strongest-performing sector in October in a positive month for its largest constituent, Tencent. The consumer discretionary (+5.2%) sector continued to outperform the broader index return. In contrast, energy (-7.2%) continued to struggle. The real estate (-2.3%) and the consumer staples sector (-1.7%) also recorded negative absolute returns.

Source: Confluence, Bloomberg. Oil WTI $. All returns are in US dollars.

For more information

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