

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by [Dan Meges, Director, Research](#)



OVERVIEW

Global equity markets traded down in October ahead of a tight US Presidential election and amid a surge of Coronavirus cases in the US and Europe. While the first half of October generally witnessed risk assets rise in value, the final weeks of the month saw increased selling in global equity markets as volatility and coronavirus cases both moved up sharply. In the US, markets were also forced to digest the lack of consensus in Washington to pass a new round of fiscal stimulus before the election despite signs that the US recovery is beginning to lose steam. In Europe, as a result of the spike in Coronavirus cases, leaders are beginning to re-impose additional restrictions on bars, restaurants, and other in-person services. Meanwhile, global manufacturers are seeing better demand as consumers increasingly shift discretionary purchases towards various consumer and home goods and away from many service-oriented purchases.

DOMESTIC EQUITY

As of October 31, 2020

U.S. EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-4.5%	-4.5%	-5.4%	0.3%
S&P 500	-2.7%	-2.7%	2.8%	9.7%
Russell 2000	2.1%	2.1%	-6.8%	-0.2%
Russell 1000 Growth	-3.4%	-3.4%	20.1%	29.2%
Russell 1000 Value	-1.3%	-1.3%	-12.7%	-7.6%

US equities trade lower for October in a volatile month that saw the S&P 500 initially gain over 5% over the first two weeks only to end October down -2.7%. Small cap stocks (Russell 2000), which had been lagging in the first half of the year, strongly outperformed large caps (S&P 500) and gained +2.1% for the month as investors continued their rotation into the small cap space given hopes for a domestic economic rebound and more appealing relative valuations. In the large cap space, growth stocks (Russell 1000 Growth) underperformed value stocks (Russell 1000 Value) as many mega-cap tech stocks sold off at the end of the month.

INTERNATIONAL EQUITY

As of October 31, 2020

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-2.1%	-2.1%	-7.5%	-2.6%
MSCI EAFE	-4.0%	-4.0%	-10.8%	-6.9%
MSCI Emerging Markets	2.1%	2.1%	0.9%	8.3%
MSCI EAFE Small Cap	-3.5%	-3.5%	-7.5%	-1.4%

International developed markets (MSCI EAFE) also moved lower in October and fell more than US equity markets, ending the month down -4.0%. Meanwhile, emerging markets, led by Chinese equity markets, were one of the best performing markets in October as the MSCI EM Index gained +2.1%. Chinese markets (MSCI China Index) were up over 5.3% for the month as its economy continues to recover and the Coronavirus is largely seen as being held in check. In contrast to China and much of East Asia, Coronavirus cases are surging again in Western Europe and are likely to weigh on the European economy over the next several months. In October, the US\$ was largely flat against both developed and emerging market currencies for the month, while small cap stocks, outside of the US, underperformed their large-cap peers, particularly in emerging markets.

FIXED INCOME

As of October 31, 2020

FIXED INCOME MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.4%	-0.4%	6.3%	6.2%
BarCap Global Aggregate	0.1%	0.1%	5.8%	5.6%
BarCap US High Yield	0.5%	0.5%	1.1%	3.5%
JPM Emerging Market Bond	-0.1%	-0.1%	0.3%	2.0%
BarCap Muni	-0.3%	-0.3%	3.0%	3.6%

Fixed income markets returns were mixed in October, amidst a steeper US yield curve as interest rates increased at the end of the month. Spreads for US investment grade, high yield, and emerging markets tightened over the course of the month varying between 9 (HY) and 11 (IG) basis points. Although investment grade corporate bond spreads tightened more than HY spreads, the IG bonds were more negatively impacted by the rising of rates on the long end of the curve due to their higher duration. Meanwhile the Muni market remains at risk as rising Coronavirus cases continue to weaken the economy of many US metros and no federal relief dollars are yet available from Washington.

Major central banks, including the US Fed, European Central Bank, and the Bank of Japan have all signaled their intent to keep their policies accommodative, but many central bankers have also spoken out at length in recent weeks of the limits of monetary policy in the face of the current global recession and the need for fiscal policy to buttress economic growth.

CLOSING

On the eve of a historic election and amidst a global pandemic, we would like to refocus our clients on the benefits of long-term approach to investing. The US election is likely to be decided by a small number of swing states—Florida, Ohio, Michigan, N. Carolina, Arizona, and Wisconsin—and the final results from these states is unlikely to be known on the morning of Wednesday, November 4th. The final election results will probably take days if not weeks of absentee ballot counting, legal challenges, and court decisions. Uncertainty will likely be high in November and markets may react negatively. Nonetheless, history has shown that the US stock market generally grinds higher regardless of the make-up of US government as US corporations adapt to any new regulations, innovate to meet customer needs, and invest for tomorrow's challenges. Patient, long-term oriented investors should look past the uncertainty of the next few weeks and months and remember that it is prudent to remain invested.

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