Philequity Corner (September 28, 2020)
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Waves

Global stock markets experienced heightened volatility as the corrective phase continued. This move was sparked by the fastest Nasdaq correction in history when investors rotated out of megacap tech stocks (see *Fastest Nasdaq correction*, September 14, 2020). Since then, equities traded lower due to a fresh wave of risks.

Second wave of coronavirus in Europe

One of the reasons behind this correction is the second wave of virus infections in Europe. This was brought by a resurgence of daily coronavirus cases in Spain, France, and the UK. After subsiding in June, daily COVID-19 cases in Spain exceeded 10,000 per day and topped the country's previous high in March. France experienced a similar trend, with new daily cases now at 15,797 and a 7-day average of 12,048 cases. UK's 7-day average rose to 5,329 cases, much higher than levels seen in June to August when the country had the virus under control. Aside from Spain, France, and the UK, coronavirus infections continued to climb in Germany, Ireland, Czech Republic, the Netherlands, Poland, Albania, Bulgaria, Montenegro, and North Macedonia.

Europe announces new round of lockdowns

The resurgence of COVID-19 in Europe came after the region reopened its cities and allowed students to go to school. In response to the spike in infections, many European countries announced new lockdowns or a slowdown in reopenings. UK Prime Minister Boris Johnson last week reversed plans to open sporting events to the public, urged people to work from home, and introduced stiff penalties to violators of social distancing rules. Though lockdowns have curbed the spread of coronavirus, they hamper business activity and result in sharp economic contractions. EU's GDP shrank 12.1% in 2Q20 as a result of lockdowns that were imposed to quell the first wave of coronavirus infections in Europe. Investors are thus concerned that Europe may be heading towards a double-dip recession as countries reimpose strict mobility restrictions and distancing measures to slow the second wave of COVID-19.

COVID-19 spreads across other American states

Another major concern for investors is the spread of COVID-19 across the US instead of being concentrated in a few major states. Infection rates have gone down in populous states such as California, Texas, Florida, and New York after they experienced a deluge of cases months ago. Though daily cases have been capped at key American states, the virus is now spreading through other states which were previously spared from high infection rates. This will make it harder to control the virus and may lead to an uptick in cases during the winter months.

Global death count reaches 1m as COVID-19 cases climb to 33m

The global count for COVID-19 cases has reached 33m with the death count now exceeding 1m. An official of the World Health Organization warned last week that coronavirus deaths can reach 2m if countries do not work together to suppress the virus. The US still has the highest case count at 7.2m, followed by 5.9m from India. However, India's 7-day average is currently at 85,157 cases, more than twice the average daily cases in the US. If these trends are sustained, India will soon become the global epicenter of COVID-19.

Blue wave in the 2020 US election

Aside from COVID-19, a key risk for the stock market is a potential blue wave or Democratic sweep in the upcoming US election. Democratic nominee and former Vice President Joe Biden is ahead at the polls and has a big chance of defeating Trump. The Democrats currently control the House of Representatives and are poised to clinch the Senate. Investors are thus wary of higher taxes and an increase in regulations that may come with a Democratic sweep. This is a stark contrast to the tax cuts and pro-business policies enjoyed by American corporates under the Trump administration. A blue wave in the November election may also open the door for left-leaning Democrats with radical socialist proposals to pass legislation that may harm financial markets and damage the economy.

Risk of a contested or delayed US election outcome

When asked about the prospect of a Biden win, Trump refused to commit to a peaceful transition of power, practically telegraphing that he would not accept a scenario where he loses. Furthermore, Trump complained about mail-in ballots and claimed that they were susceptible to electoral fraud. Because of concerns over the coronavirus, people are hesitant to vote in person and have opted for mail-in voting. A larger proportion of mail-in votes this year may result in a delay in election results and may give Trump more reason to doubt the outcome. Investors are wary of a potential political crisis and a hung government if Trump refuses to honor election results. Since the US is the biggest economy and stock market in the world, its election outcome would have seismic implications to the global economy and financial markets.

PSEi to take direction from global markets

Major countries around the world continue to face waves of COVID-19 infections. The number of daily cases in the Philippines has subsided from higher levels, with the 7-day average now at 2,838 cases. Still, it is important for Filipinos to remain careful and vigilant to prevent another rise in coronavirus infections. The performance of the economy will ultimately depend on the successful containment of the virus. Meanwhile, the PSEi will take heed from global markets which are currently grappling with a fresh wave of risks. It is therefore crucial to monitor how major countries will fare in their fight against COVID-19 and how the US election will end as these developments will provide direction to our stock market.

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