Philequity Corner (November 2, 2020)
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Virus waves and election jitters

This year, we have seen unprecedented moves in the stock market and the global economy which were caused by a once-in-a-generation black swan event. Uncertainty regarding the global economic outlook brought by record coronavirus cases have triggered massive drops and strong rallies in the stock market. We recently wrote about the PSEi's 9.9% weekly return which made it the world's best performing index (*PSEi – world's best last week*, October 26, 2020). However, last week, the Euro Stoxx 50 dropped 7.5%. The Dow, S&P 500, and Nasdaq fell 6.5%, 5.6%, and 5.5%, respectively. This was the worst weekly performance of the three major US indices since March. It was also the worst ever loss for the US stock market in the week leading to a presidential election.

Reasons behind the drop of global stock markets

Election jitters. Tomorrow is election day for the US. Concerns over the election outcome have caused many investors to sell their holdings, postpone their buying, or hedge their positions. A contested election is the worst possible outcome. A refusal by Trump to accept defeat or a delay in election results may raise uncertainty and give rise to a political crisis. Investors are also concerned that a Democratic sweep would lead to higher corporate taxes, a substantial increase in capital gains tax, a new tax for wealthy individuals, and more regulations. On the other hand, a massive government stimulus and higher infrastructure spending may offset the impact of tax increases. A blue wave may also usher in better trade relations with China, and this can benefit Asian countries such as the Philippines. However, a divided US government may delay the passage of fiscal stimulus or substantially reduce its size. We wrote about the possible outcomes of the US election in a recent article (see *Blue or Red*, October 19, 2020).

Europe falls deep into second wave. European Commission President Ursula von der Leyen said, "We are deep in the second wave." According to the World Health Organization (WHO), there were 2m new coronavirus infections reported globally last week, and 1.3m or 46% of this came from Europe. Within Europe, France is the country grappling with the most coronavirus infections at 40k to 50k new cases a day. President Emmanuel Macron announced that "France has been overpowered by a second wave."

Exacerbated first wave in the US. Like Europe, the US is dealing with a surge in COVID-19 cases. However, Dr. Anthony Fauci clarified that what the US is experiencing is "the exacerbation of the original first wave." Dr. Fauci explained that the US has not flattened the curve as it never reduced daily cases below 10k. Average daily cases in the US hovered between the 30k to 70k range. Last Thursday, the US recorded more than 90k cases for the first time, accompanied by at least 1,000 deaths. Instead of expanding in just a few hot spots, COVID-19 has spread to many disparate American states which did not experience high infection rates before. 25 states have set a record for coronavirus cases in the past two weeks.

Lockdowns in the Northern Hemisphere. Advanced news of possible lockdowns in Europe triggered the drop in stocks. France announced a one-month lockdown, only allowing people to go out if they are commuting to work, bringing children to school, buying essential goods, or exercising. Germany adopted a one-month shutdown of restaurants, bars, cinemas, theaters, and other leisure establishments. An executive director of the WHO recommended lockdowns and stay-at-home orders to countries that are experiencing a spike in COVID-19 cases. Some European countries and American states that are currently confronting a steep rise in daily cases have already started to enforce some form of lockdown or quarantine to control their infection rates.

Big drop in megatech stocks. Tech stocks dropped sharply due to various reasons. These include profit-taking, concerns on lofty valuations, less-than-expected quarterly results and earnings guidance, as well as a shift from growth to value or cyclical stocks.

Learning from Europe and the US

The recent virus waves in Europe and the US, which are either called a second wave or an exacerbated first wave, have been caused by the cold weather in Northern Hemisphere countries. However, rising infection rates can also be traced to a relaxation of safety protocols as many states and countries implemented the reopening of their economies. Citizens in those areas may have also let their guard down as they experienced reopenings after being locked down for a few months.

Meanwhile, cases in the Philippines have stabilized at 2,000 per day. Notwithstanding a flatter infection curve, the examples of the US and Europe illustrate that we cannot afford to be lax with the wearing of masks, basic hygiene, and distancing protocols. This may require some sacrifice for us Filipinos who value family time as we approach the holiday season. Christmas may feel less festive than usual because parties and gatherings are still prohibited. We believe this is a small but worthy sacrifice in stemming the spread of the virus as the country manages its reopening while the whole world awaits a vaccine.

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