

## The month ahead – October 2020

Equity markets ran out of steam in September, as the six-month rally began to fade amid a small rise in volatility and a pickup in geopolitical tensions. With a few days left in September, the S&P 500 is down around 5% on the month and on track to snap a five-month win streak, while the once high-flying NASDAQ 100 is down around 10%. Meanwhile, down under the NZX 50 fell from its recent all-time high, not helped by the news New Zealand fell into its first recession in more than 10 years.

As we head into the final quarter of the year, all eyes will be on elections and the themes influencing them, most notably the COVID-19 and the economic response. With a lot to keep an eye on, here are some key events and issues ANZ Investments will be following this October.

### **NEW ZEALAND ELECTION: LABOUR ARE ON TRACK FOR A SECOND TERM**

On 17 October, New Zealanders head to the polls for the 2020 election where Jacinda Ardern and Labour seek to win a second term. The ongoing pandemic is likely to headline the election issues, but as New Zealand slowly emerges from its second round of restrictive measures, we have seen the centre of attention shift to how best to rebuild the economy after its first recession in more than a decade.

Despite Labour's comfortable lead, one point we are following is the performance of the minor parties, most notably The Greens and New Zealand First. Some recent polling show these parties are on the brink of the 5% threshold and in jeopardy of not making it back into parliament. Should this occur, it could raise the probability of Labour governing alone, giving the party more scope to push through its policy. With a little under four weeks until the election, the most recent polls have Labour around the 45% mark and The National Party around 35%.

### **RISING COVID-19 CASES IN EUROPE POSE RISK TO RECOVERY**

Over the past few weeks, we have seen a sharp rise in COVID-19 cases in Europe, especially in early hotspots Spain, France and Germany. In fact, the total number of daily cases across Europe is now at record highs.

While death rates are markedly lower, the increase in cases has weighed on travel and tourism-related stocks, posing concerns that the recent economic recovery may be running out of steam. We are closely monitoring any government response (restrictions or lockdown measures) to the rising case numbers, which if implemented, would likely see growth forecasts revised down.

## **REPUBLICANS AND DEMOCRATS SPAR OVER SUPREME COURT VACANCY**

Most After Supreme Court Justice Ruth Bader Ginsburg passed away on 18 September, the conversation quickly shifted to who will fill the vacant seat.

With around a month to go until the election, the Republicans have said they will forge ahead to nominate and confirm a candidate while they hold both the Senate and the White House, while the Democrats have urged that the voters should decide – meaning the process should begin after November’s election.

The confirmation could have some key implications for November’s election. On one hand, moderate Republicans, who have been shifting left over the past couple of years, could gravitate back towards the right, in view of the fact, another conservative Supreme Court Judge would fundamentally tilt the court in their favour.

However, any nomination before the election would give Democrats the scope to use the election as a referendum on two key pieces of legislation the Supreme Court has and will continue to preside over – abortion and healthcare. With a potential 6-3 conservative majority on the nation’s highest court, it could put Roe vs. Wade – the right for a woman to have an abortion without government restriction – and the Affordable Care Act, otherwise known as Obamacare at risk.

While these two issues are divisive, polling shows the majority of Americans support the right for a woman to choose and Obamacare.

## **PORTFOLIO UPDATE: ADDED TO INTERNATIONAL EQUITIES, NEW OVERWEIGHT TO DOMESTIC PROPERTY AND CUT OUR UNDERWEIGHT NZD**

Over the past few weeks, we have added to our overweight position to international equities. During the recent tech-lead stock sell-off, we noted outperformance of cyclical stocks, pointing to a sign that the broader economy is starting to improve.

Elsewhere, we have entered a small overweight position to domestic property stocks. Since the pandemic, we saw significant underperformance in the property sector, in particular the retail sector. We feel the negative sentiment is overdone and are seeing some value in the sector.

Finally, we recently cut out underweight position in the New Zealand dollar. We now hold a small long in the NZD against the US dollar, believing central bank policy and election uncertainty will weigh on the US dollar relative to the kiwi. In addition, potential volatility leading into the US election has seen us enter a small overweight position in the Japanese yen, a traditional safe-haven currency.

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