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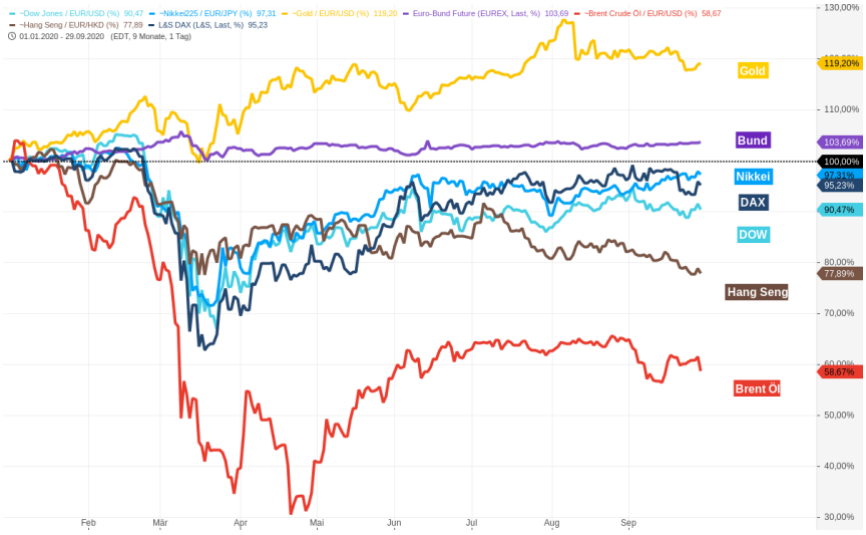
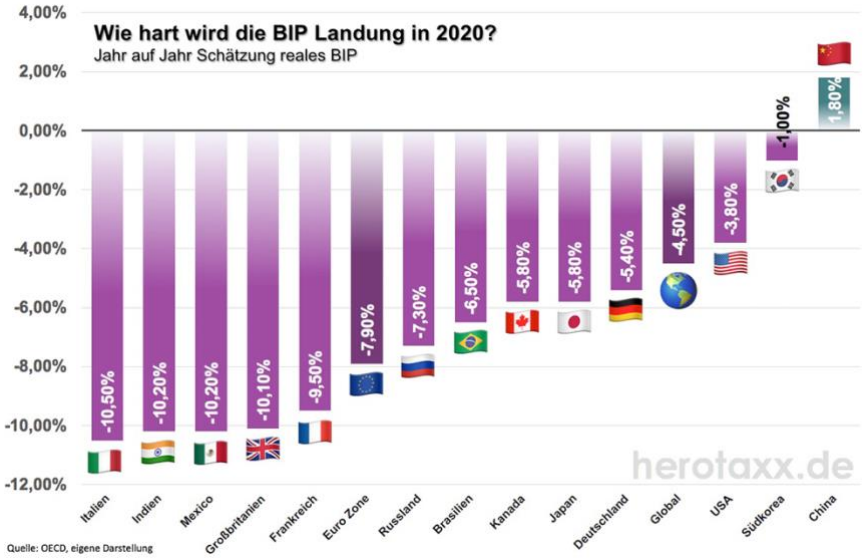
Capital Market Report Q3 2020
- This could be a "hot" 🔥 autumn -

After the summer comes the autumn. And of course, autumn brings stormy and uncomfortable days. These parallels, which we can apparently transfer from the weather to the capital markets at the moment. In any case, the stock market has been mixed and inconsistent in recent weeks. With the increased corona worries, the uncertainty on the markets is also returning.

All in all, however, the third quarter of 2020 can take a slightly positive view. However, the momentum from the previous quarter is easing and is moving back into more normal territory (Chart 2). German government bonds and gold were among the winners of the corona crisis in the last nine months. On the equity side, the major international indices are still below zero. Even though the US stock markets were supposedly bullish in the last two quarters, the performance of euro investors was slowed down accordingly by a weaker USD. You have certainly already noticed that oil, which is currently suffering the most from the economic worries, is at the bottom of the table. Interestingly, volatility measured by the VDAX New remains at an increased level of between 23%-30%. Before Corona, the fluctuation range was a good 10 basis points lower, at around 15%. This is an indication that market participants remain cautious. There are large gaps within the sectors. While commodity stocks and the entire tourism and aviation industry are groaning under the impact of the pandemic, pharmaceutical stocks and the technology sector are in high demand.

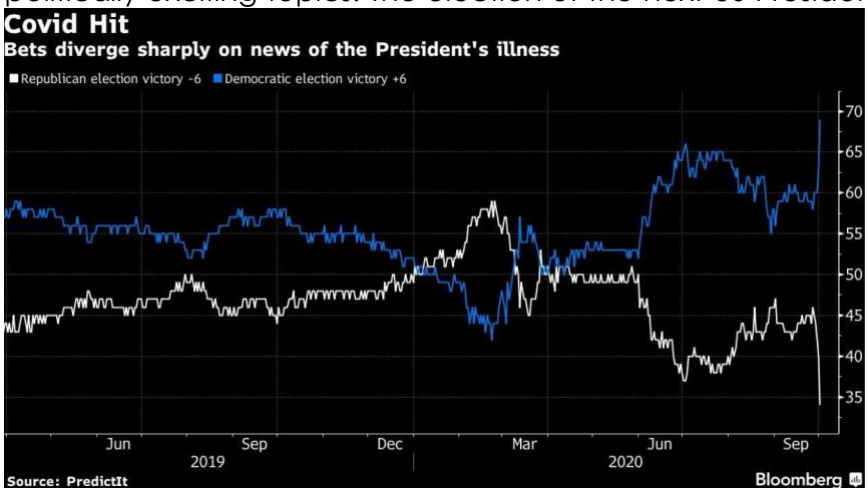


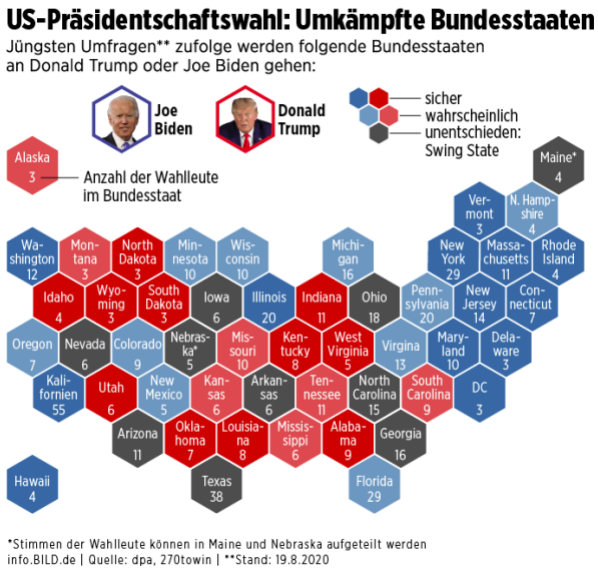
In macroeconomic terms, there are therefore almost only losers in GDP over the last 12 months (Chart 1). According to an OECD estimate, Italy in particular will have to prepare for a hard landing. While the real GDP of the EURO zone is falling by approx. 8%, Germany can still hold its ground with a 12-month estimate of a good -5.4%. China, the country where the pandemic started, will probably even be able to show a positive GDP balance. The current sentiment values, measured by sentiment surveys such as ZEW or ifo, also see light at the end of the tunnel. This is where the "V" movement (down at the beginning of the pandemic, up in summer) is most evident. Most of the situation indicators still reflect a subdued picture. Many are not yet able to return to pre-crisis levels.



The central banks on both sides of the Atlantic are pumping immense amounts of liquidity into the markets. The expansion of central bank balance sheets thus also reached new heights in the third quarter. Countries' debt is also growing. At its last central bank meeting, the FED adjusted its inflation target and assured the markets a corresponding supply of liquidity until at least 2023. Corona is thus becoming the last nail in the coffin, further anchoring the entire interest rate level to the ground. It is therefore not surprising that the entire yield curve up to 30 years for German government bonds remains in negative territory. This was also the driving force behind the price rocket for real assets in the second quarter. In the meantime, a habituation effect is returning, but there is still no alternative for shares.

To the outlook: In addition to Corona, the agenda for the fourth quarter includes particularly politically exciting topics. The election of the next US President will take place on November 3 this year. It is still completely unclear who will lead the way between the two opponents Trump or Biden, especially since Donald Trump and the First Lady have just tested positive for the Corona virus. While the incumbent US president has meanwhile been able to catch up in most of the survey results, the gap between the two seems to be closing in favor of Biden again (Chart 3). So Donald Trump will do his utmost to win back the important Swing States (i.e. the states that traditionally enter the election undecided). Should Joe Biden be elected as the 46th President of the USA, we can assume that this will be tantamount to a damper on the stock markets. Tax issues in particular should then increasingly weigh on medium-sized and smaller US companies. In terms of foreign policy, a lot of pressure would naturally be put on China and Europe, which is a positive development. How long this effect will last with a still relatively unclear program of the Democrats is questionable, however, especially since Corona has severely divided society and both Trump and Biden will have to clean up domestic politics to prevent further civil war-like riots as in some metropolitan regions of the country. Neither candidate can do much about the current interest rate situation. This was different before Corona.





In addition to the outcome of the elections, the course of the COVID 19 pandemic will of course also be decisive for the further development of the stock markets. In the public perception there is great concern about another lockdown. However, the markets only react to such news in the short term. Here one thinks already further. What happens when a potential vaccine gets its breakthrough? At the moment, it is mainly high-growth technology stocks that are benefiting. Digitization is the answer to many questions in the Corona crisis. Never before since the dot-com bubble burst at the turn of the millennium have growth stocks moved so far away from so-called value stocks. The classic dividend stocks are therefore currently relatively undervalued.

A breakthrough in vaccine development could therefore be the starting signal for a switch to value stocks, as this would also mean a (partial) return to our life before Corona. Due to the fact that the high liquidity in the market will not abate so quickly, we continue to assume that shares will be in demand in the medium to long term

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