

Defining week as US election, virus collide

Equities

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The sharemarket is primed for the worst volatility since the pandemic sent markets into meltdown early in the year, with rising virus cases in Europe and the US adding to the threat of an undecided American election.

Wall Street ended its worst week since March on Friday after a technology sell-off saw the Nasdaq Composite drop 2.5 per cent, following quarterly results from the US tech majors which added to the heightened uncertainty.

Twitter was one of the heaviest hit, with its shares plunging 21 per cent in the final session of the month, while Atlassian lost 9.1 per cent.

The ASX SPI 200 futures were 0.9 per cent higher at the weekend after the S&P/ASX 200 index shed 3.9 per cent last week. But the risk-off sentiment that hit Wall Street on Friday is likely to test any positive open at the start of trade today.

The US set a record for new COVID-19 cases in a 24-hour period on Friday, raising the spectre of nation-wide restrictions depending on the outcome of the contest for the White House.

"Everyone's questioning whether Europe is a canary in the coal mine for what's ahead for the United States," said Perpetual's head of investment strategy, Matt Sherwood.

"We have seen big lockdowns in the UK, in Germany, in France, in Spain, but also in smaller economies like Austria, Greece and Portugal. And now people are looking to the other side of the [Atlantic].

"If Biden and the Democrats do get a clean sweep, they will have a higher tendency to close the economy down, so all of a sudden the markets' assumptions about their recovery, about growth, will be thrown into question."

While polling suggests former vicepresident Joe Biden is still widely favoured to win the presidential race, early voting data point to a narrowing in key battleground states, highlighting the vulnerability of sharemarkets to an undecided or contested outcome.

Any result indicating a close outcome is likely to trigger a sell-down in sharemarkets.

In addition to containment measures, the Democratic party is also considered more likely to introduce new regulation to address the market power of the technology giants, according to Swell Asset Management's chief investment owner, Lachlan Hughes.

"It's hard to say what's priced in already, but I think there's a discount on tech ... because people are rightly worried about regulation," he said.

However, investors had already adjusted price expectations to account for that possibility, he added.

Adding to what is set to be a decisive week for the sharemarket, the Reserve Bank of Australia and the US Federal Open Market Committee are set to deliver their latest monetary policy decisions.

The RBA is expected to cut the official cash rate further into record territory, with a 15-basis point move down to 0.1 per cent priced in by the market. The rate decision is unlikely to have a material impact on the market, Mr Sherwood said, with the focus instead on any announcements concerning government bond buying.

"The RBA has done everything they can but place ads in the paper that the cash rate is going to be lowered on Tuesday, so that won't surprise the market," he said.

"If the RBA delivers an asset purchase program above expectations, then Australia would outperform during what is going to be probably a pretty volatile period to the end of the year."

Monetary policy is not expected to change with the FOMC decision on Thursday in the US. However, commentary from Federal Reserve chairman Jerome Powell will be closely watched, including for any view of the state of the economic recovery in light of the election and following the strong quarterly economic growth revealed last week.

"I think the market is skittish," Mr Hughes said. "I think any negative news flows is a headwind for equity prices. I think long term the fundamentals – if you're in high quality companies that are growing – we feel very good about the future.

"But if you're relying on stocks that are leveraged to the economy and you're hoping the macro is going to do all the heavy lifting for you, I think you're bound to be disappointed."