

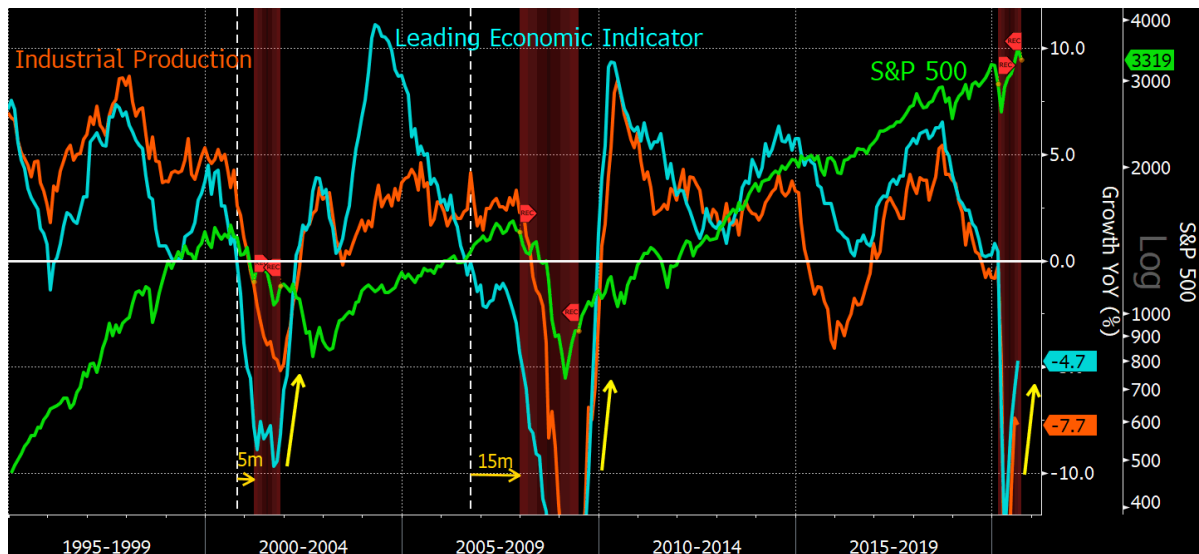
*"It is always the simple that produces the marvelous."*

Amelia Huddleston Barr

## 1. ON COURSE

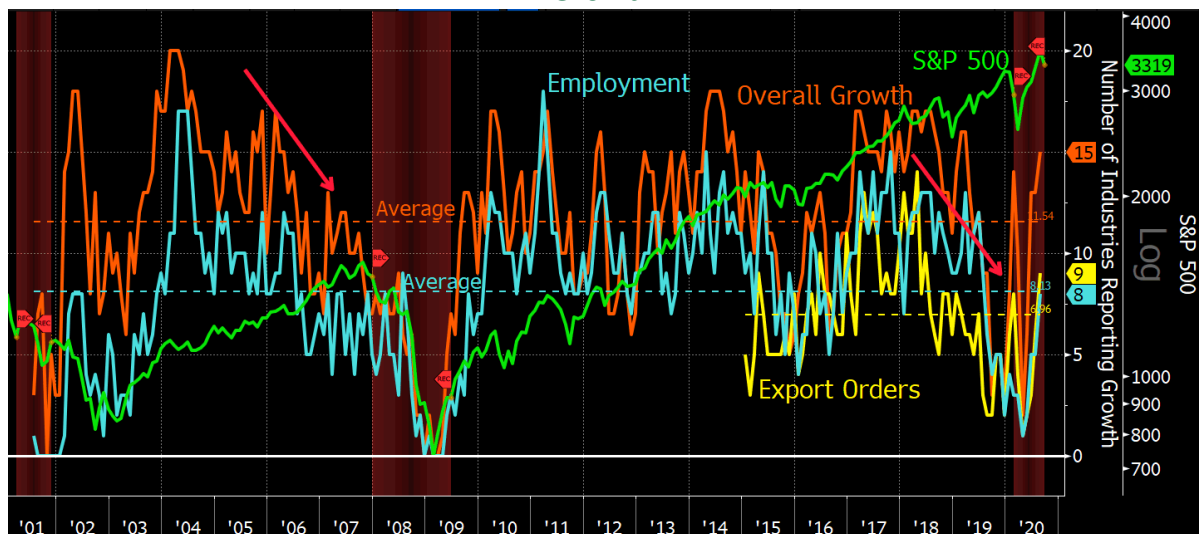
The recovery of the US economy, off a very low base, seems to be well on course:

### US – Conference Board (CB) Leading Economic Index, Industrial Growth YoY (%) vs S&P 500



Both the Conference Board Leading Economic Index and Industrial Production continue their recovery processes off their low bases. This correlates well with their patterns at the end of previous recessions, which were supportive of share prices at the time.

### US – Institute of Supply Management Survey of the Number of Industries Reporting Growth

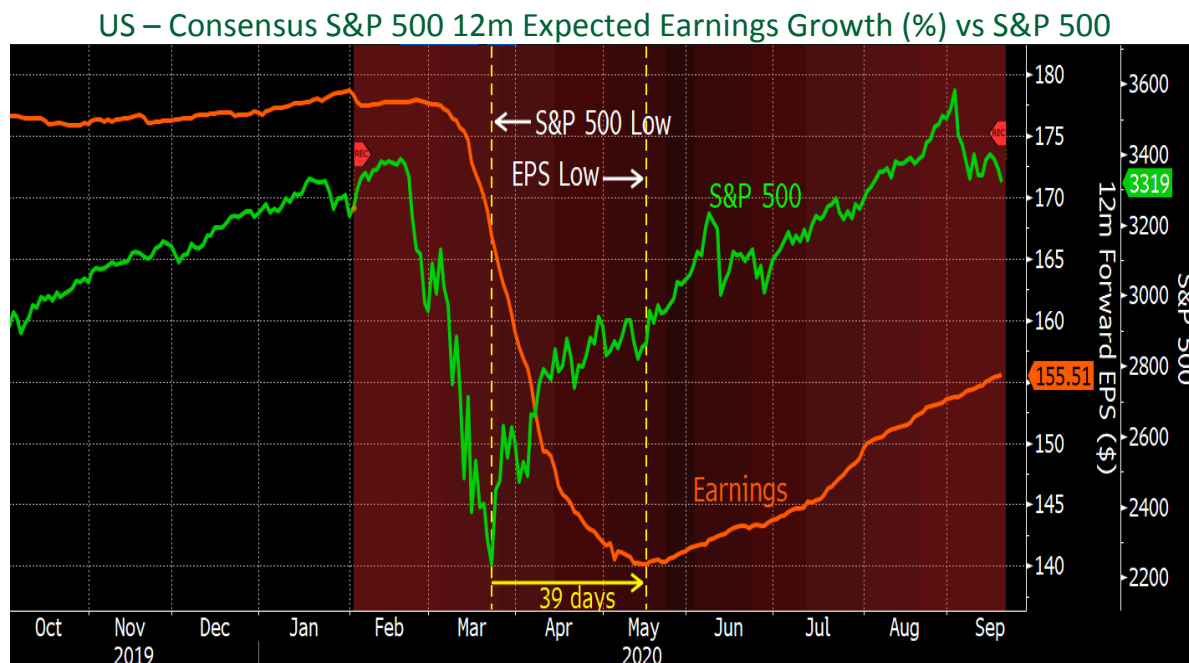


It is striking how sharply the number of industries reporting growth in employment and exports, along with overall growth, are increasing. Current readings for export growth and employment are already well above average, with employment close to average. This paints a constructive picture to investors.

*Source: Bloomberg & Stonehage Fleming Investment Management Limited. September 2020. Past performance should not be used as a guide to future performance.*

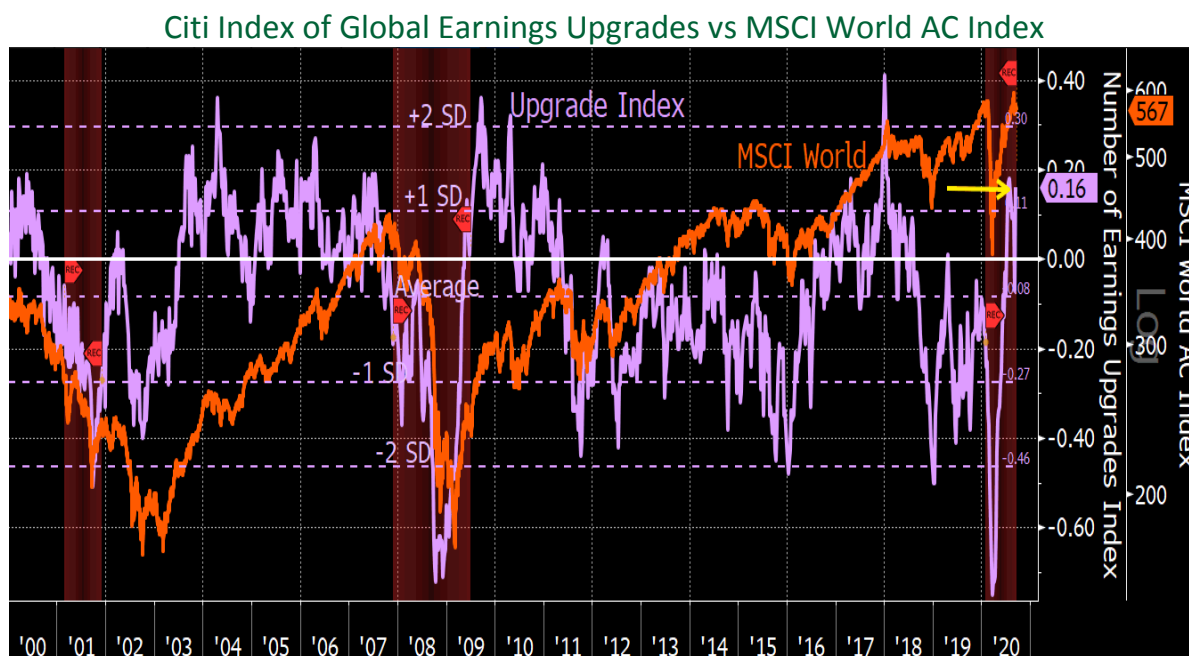
## 2. EARNINGS UPDATE

We are currently at an important juncture of economic recovery where investors focus particularly on the earnings outlook. We, therefore, update our clients on data in this context:



The consensus S&P 500 earnings expectations for the next twelve months continues its rising trend. Having dropped -20% during the virus crisis, it has recovered nearly half of this loss and is clearly dependent on further economic recovery.

We have a similarly positive picture for the global universe of earnings revisions:



The above global Earnings Upgrade Index has recovered sharply and is currently one standard deviation above its long-term average. Such levels have historically supported share prices.

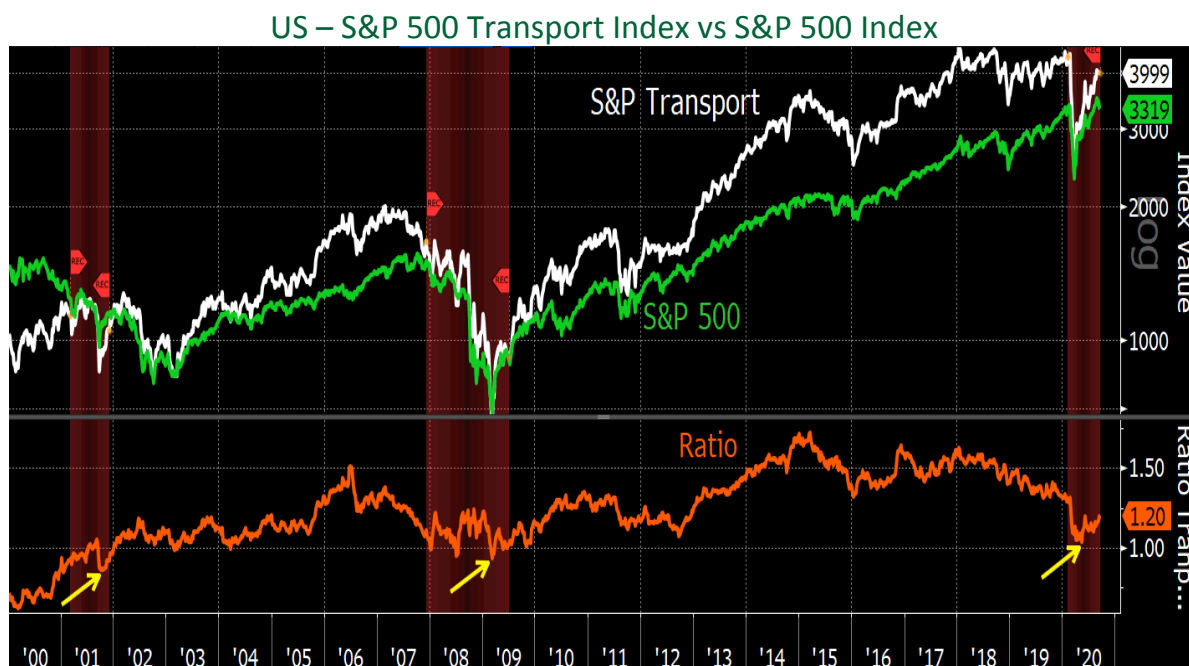
Investors are very conscious of the northern hemisphere facing rising Coronavirus infection rates. The overall impression is that such a second phase can be much better managed than the first round and that fatality rates may hopefully be lower, but investors are expected to remain nervous in this context. Against this, they may start getting more constructive news on vaccines.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. September 2020. Past performance should not be used as a guide to future performance.



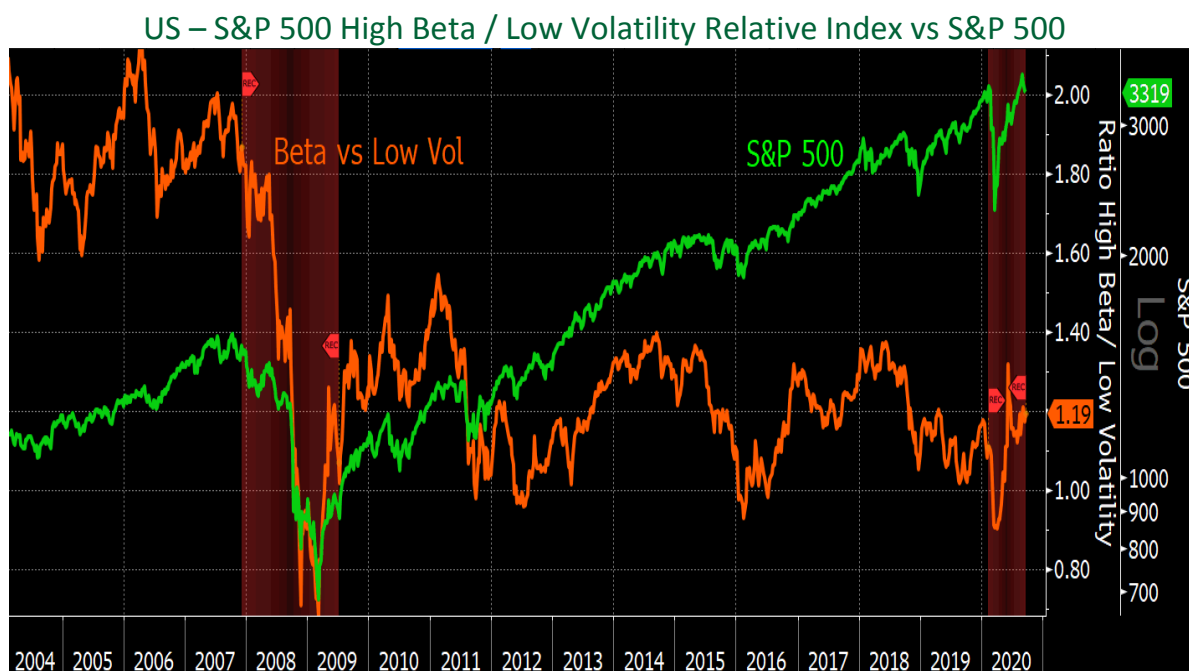
### 3. MARKET SIGNALS

We take cognizance of important signals the market often provides investors:



The S&P 500 Transport Index often acts as a leading stock market indicator. It tends to tire earlier than the overall market in the run-up to more difficult economic times, then correct sharper than the market, and again turns earlier when the economic outlook starts showing promise. The relative chart against the S&P 500 Index is often used as a sentiment tool.

The relative chart bottomed recently with the Virus Crisis, at the same level it bottomed during the Financial Crisis, and is currently rising. This is a positive stock market indicator.



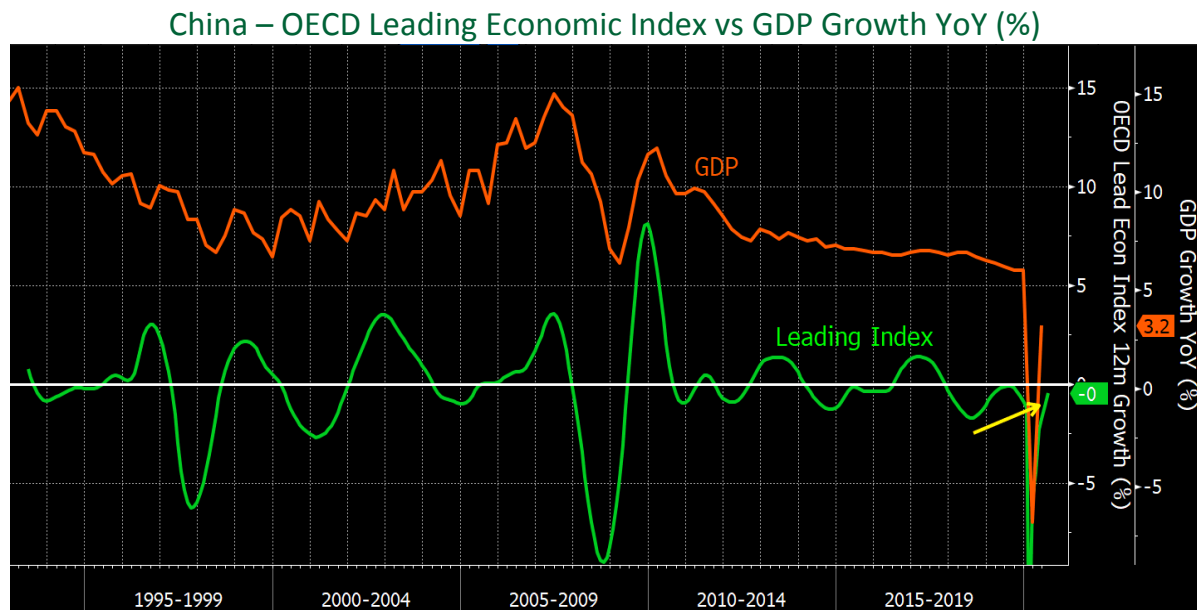
The relative chart of the High Beta S&P Index to the Low Volatility S&P Index is a measure of the risk appetite in the market, and is helpful in assessing the market outlook. It has followed a clear pattern since the financial crisis and bottomed early in the virus crisis, close to the historic bottoms. It has since reflected a constructive outlook.

*Source: US Department of Commerce & Stonehage Fleming Investment Management Limited. September 2020. Past performance should not be used as a guide to future performance.*



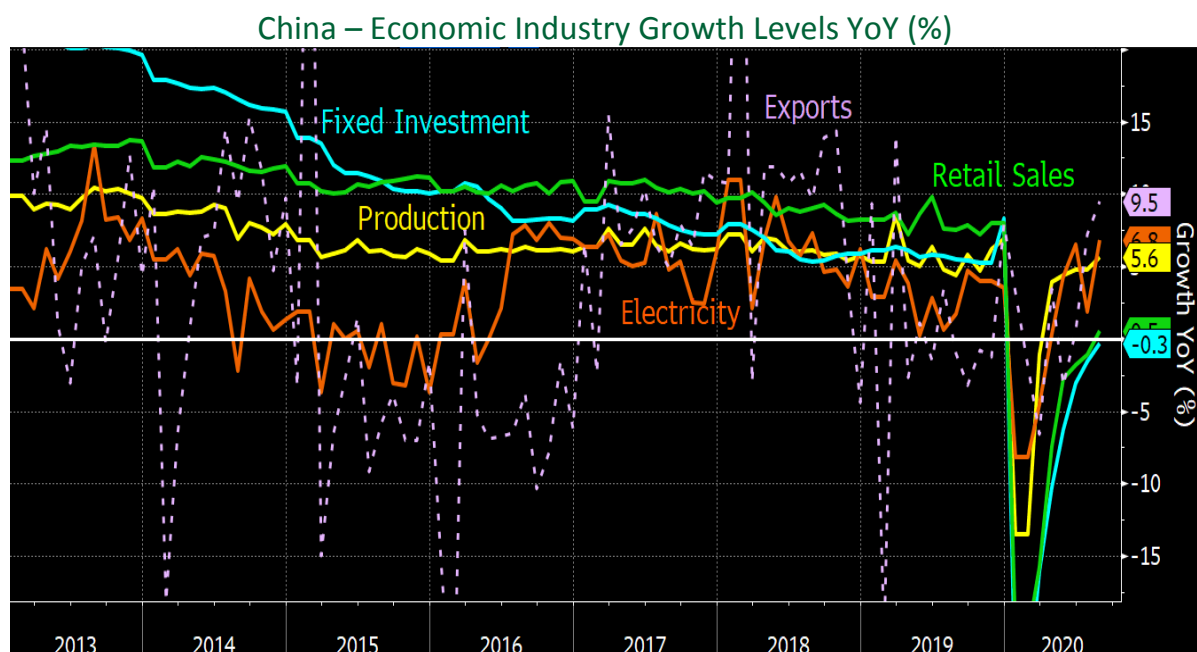
## 4. CHINA UPDATE

The Chinese economy has already experienced a strong recovery as reflected in the following charts:



The OECD Leading Economic Index is rapidly approaching positive growth levels on a twelve-month basis (it is growing at 16% on a six-month basis). This is well ahead of any other major economy. Their GDP is already growing at +3.2%, a level most major economies have not experienced for a long time. This may further support their capital market.

This positive impression is further supported by different industry experiences:



Electricity consumption is growing at +6.8%, a level well ahead of last year before the virus crisis. Production is growing at +5.6% and exports at +9.5%. Retail sales growth has recovered into positive territory and fixed investment is just marginally in negative territory. Further to this, freight volumes are growing at +4.3%, and oil demand at high double-digit levels.

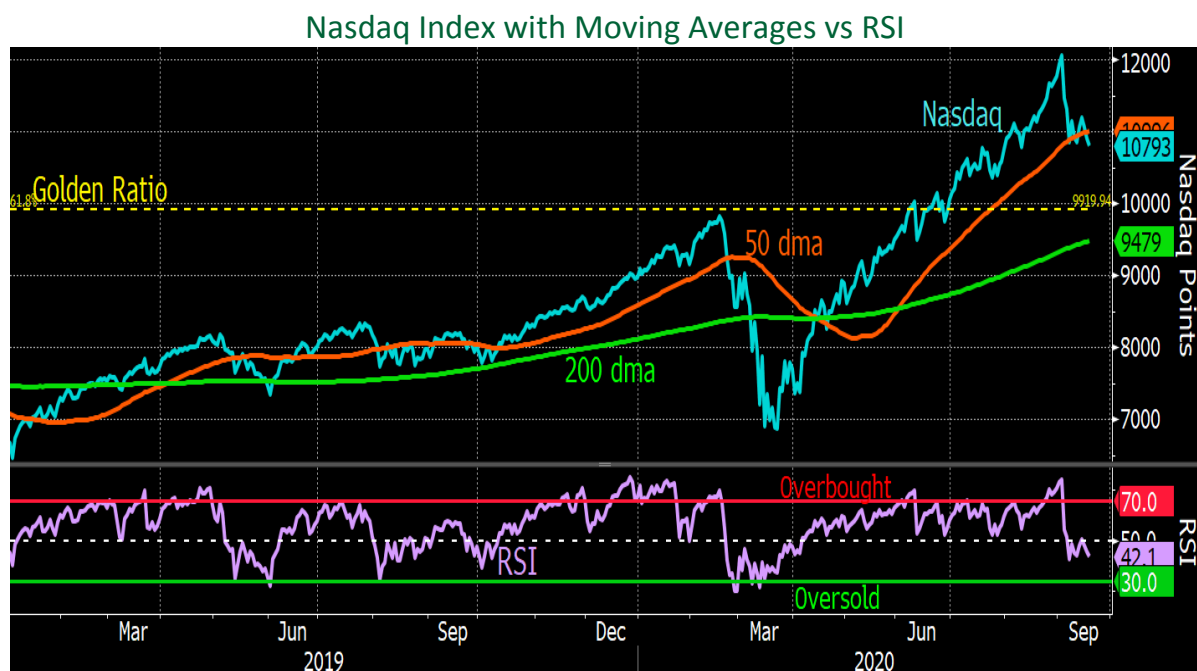
Separate to this positive economic picture, China also seems not to be saddled with the level of resurfacing virus infections that Europe and the US are currently suffering. It seems the outlook for Chinese businesses are currently better protected in this context than those in any of the other major economies.

Source: US Department of Commerce & Stonehage Fleming Investment Management Limited. September 2020. Past performance should not be used as a guide to future performance.

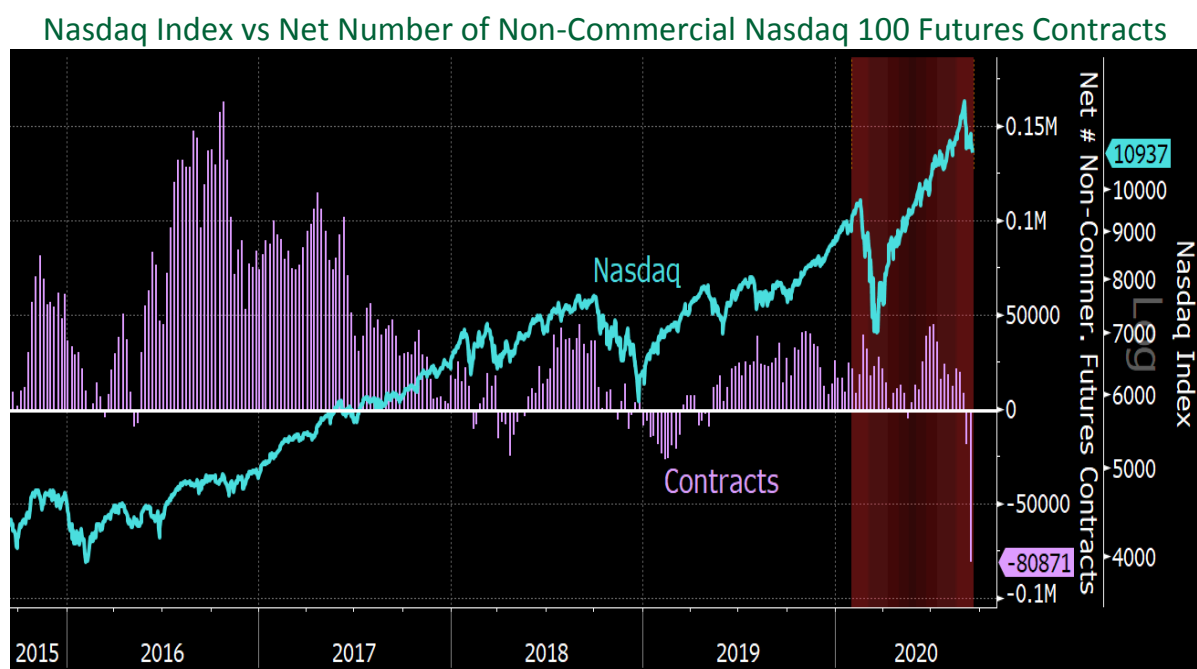


## 5. NASDAQ DROP

Technology shares are taking a breather – the Nasdaq Index is currently in correction territory (a drop in excess of -10% since its recent peak level, currently at -12%). This happens on average twice a year, and hopefully the number of corrections for 2020 is now done with.



Technically the drop does not (yet) raise major alarms – it has crossed its 50-day moving average, but the latter remains in a rising trend, as with its 200-day moving average. Importantly, the RSI level has already dropped below a 50 reading (the bottom section of the above chart), and is starting to look interesting to fundamentally orientated investors.



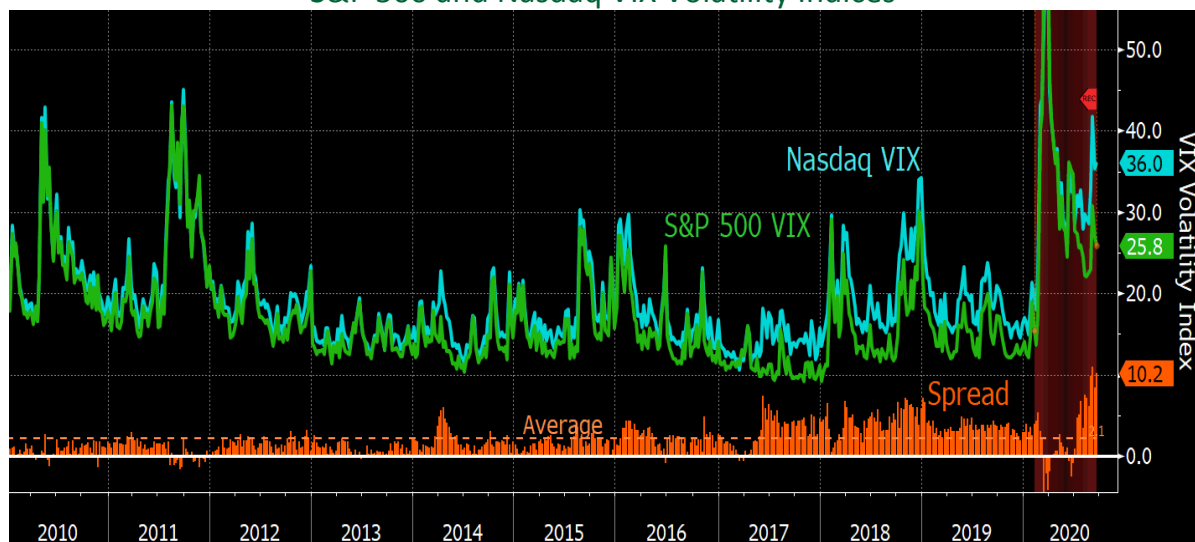
The futures market is a good indicator of short-term sentiments on the Nasdaq Index. The current net number (long contracts less short contracts) of -80,000 contracts is by far the highest since the end of the financial crisis, whilst (ironically) the outlook for many constituents is perceived to be very good. Strikingly, net negative futures positions over the recent past have instead indicated buying opportunities. We have the impression that short-term traders are utilising the recent overbought situation that built up in anticipation of an uncertain US election.

Source: US Department of Commerce & Stonehage Fleming Investment Management Limited. September 2020. Past performance should not be used as a guide to future performance.



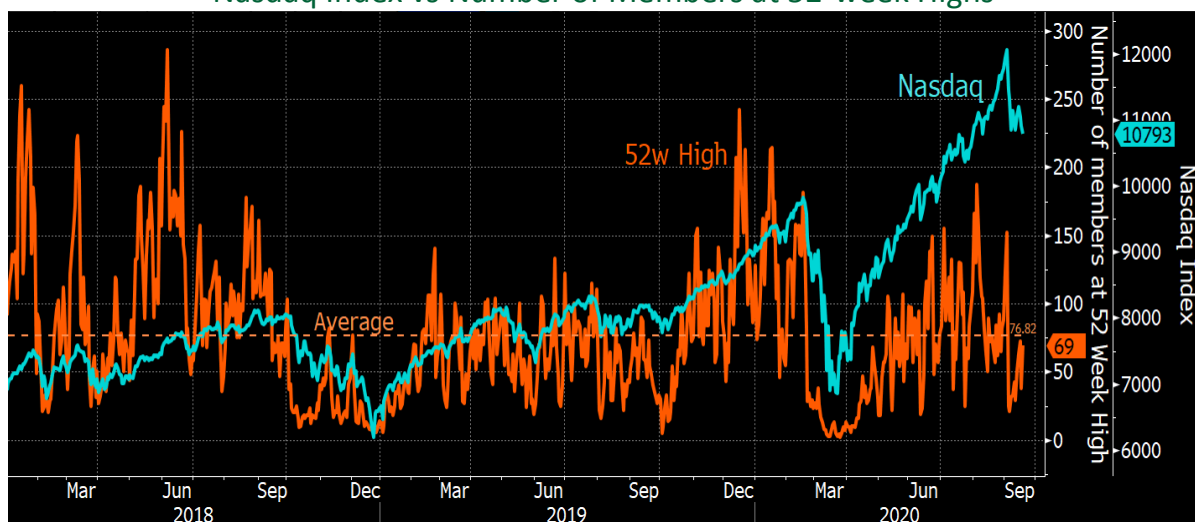


### S&P 500 and Nasdaq VIX Volatility Indices



The Nasdaq VIX Volatility Index has risen in this process, but has started to recede recently, currently still at elevated levels. The S&P 500 VIX Index paints a similar picture, most probably because of the run-up to the US election.

### Nasdaq Index vs Number of Members at 52-week Highs



The number of Nasdaq members at their 52-week highs is currently below average, at a relatively neutral level. A drop from current levels may indicate a technical buying signal.

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