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Privateoffice Weekly Market Update – 27th July 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

A week of rotation and confusion as both US-China tensions and Covid-19 cases increased dramatically.

Major Issues

Covid-19

On **Monday** German biotech firm BioNTech and Pfizer reported additional data from their experimental vaccine that showed it was safe and induced an immune response reaction. Separately a British pharmaceutical company Synairge claims its new respiratory coronavirus treatment has reduced the number of hospitalised patients needing intensive care in a clinical trial. The Lancet reported that preliminary results showed that Oxford's Covid-19 vaccine with Astrazeneca is safe and generates an immune response. Investors are clinging to the hope of a vaccine sometime in the future as cases increase globally each day. **Tuesday's** papers were filled with stories about a vaccine by Xmas . However, many are forgetting the time it takes to test these vaccines on humans and the fact that the pandemic is still raging across the globe especially in the US Africa and Latin America. Donald Trump warned that the pandemic will get worse before it gets better and urged American citizens to wear masks. On **Wednesday** Pfizer and the US government struck a deal in which the company will provide 100 million doses of a Cvid-19 vaccine currently being developed. The vaccine will be free to Americans. On Thursday it was reported that California, the most populous US state, had a daily record of 12,800 new cases.

US-China Tensions

On **Wednesday** China's foreign ministry said that it was ordered to shut its consulate general in Houston. This unprecedented move is the latest in an escalation of tensions.

The United Kingdom

UK Equities

On **Monday** housebuilders rallied on the back of news from Rightmove that there had been a surge in inquiries over the past few weeks. Astrazeneca shares rose 3.5% after data from its early stage human vaccine trials. The FT100 closed 0.46% lower at 6261 leaving it 16% lower this year and behind the S&P and Dax due to its large exposure to oil and financials. The UK market laboured under a stronger currency as the weak dollar saw a rise in sterling on **Tuesday** and

Wednesday. The FT100 lost 0.13% and 1% respectively to close at 6207.

Equities opened higher on **Thursday** led by Unilever which reported profit growth in the first half of the year. The CBI industrial trend survey showed that UK factories have suffered their worst output slump on record over the last quarter forcing firms to keep cutting jobs. The FT100 added 0.11% to 6213.

Retail sales figures were released on **Friday** and beat forecasts for June with a monthly increase of 13.9% which is only a 1.6% yearly contraction illustrating a strong rebound as lockdown eased. The UK market lost 1.41% to close at 6123 as sentiment deteriorated during the day and the US opened sharply lower. Another poor week in which the index lost 2.89%.

Public Sector Borrowing

The massive borrowing required to keep people furloughed and emergency packages for the economy during the ongoing pandemic sent the UK's debt to GDP ratio to 99.6%. This is the highest level since 1961 and 18.9% ahead of last year.

Flash PMI July

Early indications are that this was a good month when compared to June and May. Service sector activity grew at a strong pace hitting 56.6 versus 47.1 for June. Manufacturing rose from 50.1 to 53.6. These figures are only an indicator of what business are seeing now and take no account of the huge damage done over the last quarter. It's also important to note that one-in-three service companies are laying of people due to lack of demand.

The United States

US Equities

After falling 7% the previous week Amazon had its price upgraded on **Monday** to $3,800 by Goldman and Jeffries. Current price $3000. The two investments houses concluded on-line spending will continue to accelerate this year. These comments propelled the Nasdaq 2.51% higher as "stay at home stocks" saw money flood back in from the rotation of the previous week. Amazon surged 7.5% as a mega-cap rally lifted the main indices in a day when over 50% of stocks fell. Healthcare was boosted on vaccine news and cyber security and robotics ETF's continued to benefit. The S&P added 0.84% to blast it into positive territory for 2020.

Coca-Cola reported a fall in profits on **Tuesday,** but guidance said demand was improving as lockdown eases. The Dow added 0.6% fuelled by strong rises in IBM, after good earnings, and Chevron as the oil price increased. The S&P was up 0.17% and the Nasdaq dropped 0.8% after its huge rally in the previous session. There was yet another short-term rotation as money moved back into cyclicals and banks.

There were more strong housing market numbers reported on **Wednesday**. Mortgage applications jumped 4.1% on the week and refinance applications rose 5% on the week to a jump of 122% over the year. Existing homes sales surged 21% in June making the highest monthly gain on record. The Dow and S&P added 0.6% as rotation continued into cyclicals although there was profit taking in energy and financials. The Nasdaq added 0.24% and the Vix remained stubbornly high at 24 illustrating that traders still have one eye over their shoulder. Microsoft results were better than expected and Tesla blew past analysts' expectations opening the door for entry into the S&P500.

On **Thursday** there was optimism over the next US stimulus package although the timing is still uncertain. There were increasing worries that US-China relations would worsen ahead of the election. The announcement of weekly jobless claims was disappointing as it showed claims were at 1.416 million versus 1.3 million previously. This was the first rise in weekly claims since late March and was most pronounced in the areas where Covid-19 is spiking.

A rough session on Wall Street saw technology lead a downturn as negative sentiment took over. The Nasdaq lost 2.23% and the Dow and S&P 1.3% respectively. The Vix moved up to 27 and there was a lot of talk about the large technology companies being "broken up". Apple is facing antitrust scrutiny in the US and abroad and Tim Cook and the heads of Amazon and Facebook face Congress today.

News of a relief package being announced this week did not help equities on **Friday** which opened slightly lower. This was mainly due to Intel which reported earnings and revenue better than expected but said its next generation of chips would be delayed. The stock dived an amazing 15.84% dragging down the major indices. The Dow lost 0.68% making a weekly loss of 0.7% and the S&P lost 0.62% for a weekly loss of 0.2%. The Nasdaq dropped o.94% for a weekly loss of 1.3%. Nothing too dramatic at this stage and the Vix ticked up to 25.6.

PMI Flash Readings July

Manufacturing came in at 51.3 versus 49.8 in June and Services at 49.6 v 47.9. Both were lower than expected. The US is experiencing its first ever service driven recession as businesses like travel, restaurants and entertainment are not expected to recover soon.

US Bonds

The huge daily increases in virus cases across the globe kept the 10-year yield at 0.61% on **Monday** as investors still looked to US debt for

sanctuary.
Congress is set to begin a fresh coronavirus aid package aiming to finalise legislation on help for households and business in the coming weeks.
The ten year slipped to 0.58% on **Wednesday** as US-China tension and rising cases of coronavirus saw bond prices rise. Possible moves by the Fed to expand the balance sheet further continued to put pressure on yields and pushed bond prices higher.
On **Friday** the ten-year yield was trading around 0.59%.

European Markets

Markets were boosted on **Monday** by the strong hopes that an agreement on the recovery fund could be reached. The Dax added 0.99% to 13,046.
Markets opened higher on **Tuesday** as the EU agreed a landmark deal on a Covid-19 recovery fund after the longest summit in 20 years. The EU's executive arm will tap financial markets to raise €750bn which will be distributed among the countries worst affected by the pandemic. The German market opened up 1.6% at 13,259, taking it into positive territory for 2020, led by consumer goods and autos. However, the stronger Euro dragged back internationally exposed stocks and the Dax closed 0.96% higher at 13,171.
The momentum stalled into **Wednesday** where the Dax lost 0.51% but on **Thursday** stocks opened higher led by Daimler who said they saw the first signs of recovery. The Dax only added 0.07% as US markets dipped.
European stocks slumped on **Friday's** opening led by microchip companies after Intel's production warning. The Dax los 2.02% for a weekly loss of 0.51% for the week.

Flash PMI July

German manufacturing came in at 50 and services at a very strong 56.7. France also showed that both sectors were now expanding. Overall Eurozone business activity index hit a healthy 54.8 versus 48.5 for June. The first signs of expansion.

Asian Markets

On **Monday** it was reported that Japanese exports had dived 26.2% from a year earlier. This was worse than expected. The Nikkei still managed to rise 0.09% to 22,717. The Chinese market surged 3.11% as the Central bank kept both its one-year and five-year loan prime rate unchanged. This was a sign that the economy is recovering following the reopening. Over the weekend China's regulators raised the limit on how much insurers can invest in equity assets in an effort to bring more long-term funds into the market.
Asian stocks rallied into the green late in **Tuesday's** session as news of the Euro recovery fund hit news wires. The positive vaccine news which mostly came out after the previous sessions close also boosted sentiment. The Nikkei added 0.73% and Shanghai 0.2%
Asian stocks were mostly lower on **Wednesday** with the Nikkei dropping 0.58%. Shanghai again outperformed adding 0.37%.
Thursday was another mixed and cautious session across Asia which has not caught onto Wall Street's momentum this week. Shanghai lost 0.24% and the Nikkei was shut for a two-day holiday.
US-China tensions were the main driving force pulling down the Shanghai index on **Friday** closely followed by the tech sector after the Nasdaq drop. Shanghai lost 3.86% for a loss of 0.42% on the week.

Commodities

Oil & Gold

Gold ticked down to $1808 on **Monday** as the dollar strengthened but worries over a surge in coronavirus cases and its impact on the global economy kept the safe-haven asset above the psychological $1800 level. The stronger dollar is bad for gold investors in other currencies. However, as the day progressed investors concluded that rising cases meant more inflationary inducing stimulus and gold moved up to $1816.
Brent enjoyed the European recovery news on **Tuesday** and ticked up to $43.89, a four month high as technical analysts looked at a potential breakout.
By **Wednesday** gold hit $1865 a price not seen since September 2011 as the dollar weakened. Gold does not pay a dividend but with interest rates at zero or negative, and companies cutting dividends, this fact matters less.
The dollar weakened further on **Thursday** as investors bet that the rise in coronavirus cases would mean that the economy will underperform its peers. Gold took advantage of this and geopolitics to move to $1890.
On **Friday** a combination of weaker dollar and geopolitics saw gold go through $1900. Brent ended the week down slightly at $43.34.

Sterling & Dollar

The Euro was the best performer in early **Monday** trading hitting €1.146 versus the dollar as European leaders said the European Recovery Fund negotiations were "back on track". Sterling remained at £1.097 and $1.2566
On **Tuesday** the pound moved slightly higher to €1.101 on news of the Euro recovery fund. The dollar weakened allowing sterling to sneak up to $1.275. The dollar was down against a basket of currencies as the huge money printing operation and the budget deficit weighed the currency down. This is bad for UK and European equities as it makes their overseas earnings weaker. It does push up the price of gold and

oil as these are cheaper for global buyers.

On **Wednesday** the Euro was trading at an 18-month high of $1.1517. Reports in the Financial Times that the UK would not reach trade agreements with the US or EU by the year end saw sterling slip to $1.265.

The dollar remained under pressure on **Thursday** due to expectations of more fiscal stimulus and possibly more Federal reserve action. Sterling moved up to $1.272 and the Euro to $1.16.

The dollar slipped a gain on **Friday** making it a 1% drop on the week against the currency basket. Sterling moved up to $1.28

Closing Thoughts

The equity market continues to gyrate between technology and cyclical leadership in the very short term thus the rally has been relatively healthy. However, the Vix, gold and US 10-year treasury yield are all flashing warning signals indicating that all investors are not confident with equities at current levels. The coronavirus remains a huge and damaging issue and earning guidance has so far been vague at best. Investors need something to keep hope of a brighter future alive and stimulus alone will not prevent a market drop if there is no sign of future earnings growth. The equity markets remain in a state of high alert.

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