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Privateoffice Weekly Market Update – 17th August 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

The lack of a stimulus package in the US prevented the S&P500 hitting the all-time high.

Major Issues

Covid-19

On **Tuesday** markets responded positively to news that Vladimir Putin claimed the country had given regulatory approval for the world's first Covid-19 vaccine.
It was reported early on **Wednesday** that the US government will purchase 100million doses of Moderna's experimental vaccine which is currently in late stage human trials.

Geopolitics

China said on **Monday** it is imposing sanctions on a group of senior US politicians.
On **Friday** there was a meeting between US and Chinese officials to discuss the progress of phase one of the trade deal. It is thought President Trump does not want to jeopardise the deal this side of the election for fear of alienating important voters such as farmers.

The United Kingdom

UK Equities

A very quiet start to a typical summer **Monday** with investors seemingly uninterested in stocks. The FT100 added 0.31% to 6050. Stocks rallied 1.25% on the opening on **Tuesday** due to signs of a slowing of the virus in the US with travel stocks leading the gains. The FT100 added 1.96% to close at 6169. Investors shrugged off being the worst performing major market, economically in Q2, and pushed shares higher on **Wednesday**. The FT rose 2.04% on the day. On **Thursday** several large stocks went "ex-dividend" and this saw the FT100 dropped 1% in early trading and finally closed 1.5% lower at 6185. Oil stocks declined after the International Energy Agency (IEA) downgraded forecasts for demand. The stronger pound made for a poor day for equities.
The misery continued **Friday** morning as the FT100 dropped 2.25% mainly due to Chinese economic data showing that the recovery was sluggish. Travel companies also declined due to the new quarantine rules. The FT100 closed 1.5% lower at 6092 for weekly gain of 1.31%. Investors are looking at China as an indicator of how the economies of the West will perform in months to come. We believe the FT looks good comparative value at these levels.

UK Employment

The rate remained flat at 3.9% in the three months to June reflecting that

many people who have lost their jobs are not looking for work. There were 750,000 less people on company payroll in July compared to March.
A total 7.5 million people remain furloughed or temporarily away from their job.

UK GDP

The second quarter on quarter drop means that the UK is in recession for the first time since 2008. There was a fall of 2.2% in Q1 and the massive plunge of 20.4% in Q2. This was the largest quarterly contraction on record and wipes out around 17 years of growth. Compared to other countries the UK has fared much worse due to the later launch of lockdowns and the slower removal of harsh restrictions. The major European economies dropped between 10% to 13% in Q2 and the US and Japan by 9.5% and 7.6% respectively.

The United States

US Equities

Apple rallied in the pre-market on **Monday** as a broker put a $515 price target on it (currently $460). Steve Mnuchin told reporters that the White House was "prepared to put more money on the table." The S&P is heading back to its all-time high of 3386 (19th Feb) and added 0.27% to close at 3360. The Nasdaq again lagged and fell 0.39%. There was further sector rotation with cyclicals and value doing well. The Dow attracted buyers looking for stocks, such as Nike and Caterpillar, exposed to the cheap dollar and added 1.3% to close at 2779.
It appears that Trump's executive orders have put pressure on Congress to agree a broader fiscal package and this allowed a buoyant start to trading on **Tuesday.** US factory price data showed rising prices as demand increased after the lockdown. Another sign the economy was trying to get back to normal. The trading day became quite a "game of two halves." When an official announced there had been no progress on the stimulus talks the Dow promptly dropped from a gain of 360 points to close 104 pooints,0.38%, lower. The S&P backed away from the highs and lost 0.8% and the Nasdaq lost 1.69% as rotation into value and cyclical continued. The selloff in bonds helped banks and energy also did well.
Wednesday saw a reversal as money flowed back into technology and the S&P made an assault on the summit. The rise was tempered by news that a stimulus was no closer, but Pfizer announced that early vaccine trails were provoking an immune response. A strong US government bond auction also added to a positive sentiment that financing the pandemic was succeeding. The Nasdaq added 2.13% outperforming the Dow and S&P which added 1.05% and 1.4% respectively. The Vix remained at 22.
Thursday saw weekly jobless claims fall from 1.18million to 963,000 much better than expected. The first time it has been below 1million since March21st. Continuing claims fell from 16.1million to 15.5million. Cisco's earnings and guidance disappointed and this was a drag on the Dow, dropping 11.5%, but did not stop the flow of funds into technology. The Dow and S&P lost 0.27% and 0.2% respectively while the Nasdaq added 0.27% and the Vix remained at 22. The S&P remains hesitant ahead of the all-time high. The more positive yield curve helped cyclical stocks as it is forecasting better times ahead. Traders are also concerned about the stimulus package as discussions have been pushed until after Labour Day (September7th). They do expect a package due to the high level of unemployment and as no party wants to look bad in an election year. However, it may be sideways trading until then.
On **Friday** retail sales figures for July, ex autos, rose by 1.2% slightly better than expected. It was third month of increases and June was revised higher. Industrial production also put in the third month of growth after the sharp declines of March and April. Fresh data revealed that consumer confidence improved in August but remains low. It was a lot for investors to digest on a Friday in the slowest trading month of the year. The Dow added 0.12% to end the week 1.8% higher and the S&P was unchanged for a rise of 0.64% on the week. The Nasdaq was flat on the week and the Vix remained at 22.

US Bonds

The 10-year remained at 0.56% on **Monday** with China-US tensions giving a support to bond prices. The rally in safe-have treasuries was snuffed out on **Tuesday** as the 10 -year dropped to 0.65% as investors moved into riskier assets. At current levels major government bond markets do not have much room left on the upside.
On **Wednesday** inflation came in higher than expected and this sent bonds lower and yields higher as it eats into dividends. The 10-year slipped to 0.68%.
The ten-year moved to 0.71% on **Thursday**. The shape of the bond market is changing slightly to suggest that the future may brighter, and this is what equities have been predicting for some time. Investors also understand that there is more downside than upside and for this they are receiving a very low yield. Many are moving to mega-cap tech stocks instead.
The ten-year was trading almost flat at 0.7% on **Friday** after the economic data.

European Markets

Stocks rose on **Monday's** open as Donald Trump unilaterally extended jobless benefits in the US. Investor sentiment in Germany rose for the fourth month in a row. The French central bank said that its recovery was on track. The Dax added 0.1% to 12,687.

The German ZEW economic confidence survey produced on **Tuesday** jumped on hopes that the country will recover from the Covid-19 pandemic. The Dax added 2.07%. On **Wednesday** data showed that factory output rallied in June. The Dax added 0.86%. Trade tariffs were on the agenda on **Thursday** as the US said it was still committed to a long-term solution over aircraft. Tariffs on some goods were altered but there were no increases which was given a cautious thumbs up. The Dax dropped 0.5% to 12,993. The Dax lost 0.68% in a dull day's trading on **Friday** for a weekly gain of 1.85%.

Asian Markets

Markets were subdued on **Monday** with the Nikkei shut and Shanghai gaining 0.75% as its outperformance continued. Factory prices in China fell at a lower rate in July suggesting a pickup in demand for Chinese made goods around the globe. This is further evidence that the recovery is not only solid but gaining momentum.

Asian markets moved higher on **Tuesday** following the Dow Jones lead with the Nikkei jumping 1.88%. However, Shanghai gave up 1.15% as investors took profits amid further US-China tension. **Wednesday** mirrored the previous day as Shanghai lost 0.63% and the Nikkei added 0.41%. Short term momentum has changed direction in both these markets. **Thursday** was more of the same as the Nikkei followed Wall Street adding 1.78% and Shanghai remained unchanged. Asian markets were little changed on **Friday**. The Nikkei added 0.17% to end the week 4.24% higher. Shanghai added 1.19%, for a weekly gain of 0.16%, helped by decent economic data. Retail sales continued to climb on a monthly basis with high end spending returning. Industrial production grew at 4.8% year on year. Forecasts for both retail and Industrial had been higher so there was some disappointment which was tempered by the fact that China has been hit with rains and floods.

Commodities

Oil & Gold

Brent opened higher on **Monday** at $44.83 as comments from Saudi Aramco's CEO pleased investors as he predicted oil demand rebounding in Asian as economies open. Gold was trading at $2040 and news from commodity and technical traders prompted us to take our profits after the significant rally. On **Tuesday** there was a huge unwind in the recent gold surge and the commodity dropped from around $2040 to $1930**.** Some dollar strength on positive economic and virus news helped the push downwards. Rising US treasury yields also contributed. It was the worst trading day in seven years. Consumer price inflation came in stronger than expected in the US on **Wednesday**. The levels remain low, but the core is building, and this gave some support to gold which was trading at $1945. Gold continued to be supported at $1941 on **Thursday** on hopes of more global stimulus, people's basic fear of the future, inflation rising and possibility of low rates for the coming years. For these reasons we began to buy-back our positions. Gold was trading at $1956 on **Friday** as lack of US stimulus caused a weaker dollar. Brent dipped to $44.48 on the IEA news.

Sterling & Dollar

The dollar was struggling to hold onto its rally on **Monday** and sterling ticked up to $1.306 and the Euro to $1.176. By **Wednesday** the levels were much the same for the Euro and sterling as the dollar index ground higher on vaccine news. The pound ticked higher to $1.31 and €1.11 on **Thursday** after Britain's Brexit negotiator said a deal on the relationship with the EU could be reached next month. On Friday the dollar was slipping again to £1.311 and down slightly against a basket of currencies.

Closing Thoughts

Equity markets have raced to near all-time highs in the US as investors grabbed the prospect of years of low growth, low interest rates and loose monetary policy. Despite the pandemic, terrible earnings and China-Us tension equities have gathered favour as they are the only asset class offering a potentially decent return. Technology has done well over the recovery period as the FAANG stocks have massive cash balances and are being treated as bonds. Bonds themselves look expensive with only inflation linked offering a real attraction. Is this the new order or just a blip induced by the pandemic and how long will it last?

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