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Privateoffice Weekly Market Update – 3rd August 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

Another rollercoaster of a week for equity markets topped off with some amazing technology earnings and an unbelievable rise of 10.46% in Apple stock on Friday.

Major Issues

Covid-19

Monday saw reports of large spikes in France, Belgium and the Netherlands as well as further cases in Spain. Reports from the US on **Tuesday** showed that new positive tests were declining. There were also announcements from multiple firms including Pfizer and Moderna that they were starting late-stage trails of a Covid-19 vaccine. Almost 1300 virus related deaths were logged in the US the biggest daily increase since May. On **Wednesday** the Hong Kong government warned that its hospitals faced collapse as it grapples with a rise in cases. On **Thursday** Johnson & Johnson started human trials of Covid-19 vaccine.

Geopolitics

The US consulate in Chengdu was shut down in retaliation to Texas on **Monday** and there are concerns that rising tensions will ultimately damage both economies.

The Federal Reserve.

The main points from the meeting and Q&A that will impact on markets were.

1. Continued fiscal and monetary policy is needed to help the economy.
2. The Fed have further ways of helping the economy and will support it until the signs are that it is not required.
3. Congress must continue to provide help as the Fed can't aid the economy alone.
4. The pace of the recovery is slowing, and progress will be dependent on the virus.

The market was happy as basically the "Fed has its back."

The United Kingdom

UK Equities

Airline and travel stocks tumbled on **Monda**y amid fears of other travel restrictions. It was another rough day for the FT100, and it lost 0.31% to close at 6104. Builders were leading the market on **Tuesday** as investors appeared cheered by vaccine news and bought a sector that tends to benefit post-crisis. The UK national thinktank predicted that unemployment in the UK will rise from around 4% presently to 10% by the end of the year. The FT100 added 0.32% to close at 6096. Figures on **Wednesday** showed that consumers were repaying debt and reducing the amount they are taking on credit. The FT closed 0.04% higher at 6131. **Thursday** was another awful day for the FT. Banks led the index lower after the Fed kept rates at near zero. Strong sterling damaged the large international companies as it reduces overseas earnings. The FT100 lost 2.31% on the day and another 1.54% on **Friday** to close the week at 5897. A weekly loss of 3.8%.

The United States

US Equities

JP Morgan raised Apple price target to $425 on **Monday** (current price was $371 but rose to close the week at $425.). There was also a flurry of other company share price upgrades from various houses. Earnings have been well received with 25% of companies in the S&P500 so far reported and 80% have beat the low bar set by analysts. US durable goods orders (washing machines etc) rose 7.3% in June slightly better than expected. The fall in the US dollar helped internationally exposed stocks and the Dow and S&P added 0.43% and 0.74% respectively. The Nasdaq outperformed adding 1.67%. On **Tuesday** consumer confidence figures were released and they pointed to a rockier economic recovery as future expectations sank again. The Fed started its two-day meeting. Pfizer's share price surged after the company easily beat earnings and raised guidance. They also said their Covid-19 vaccine could be with the FSA for approval as early as October. 3M, the maker of consumer and industrial goods, slightly missed revenue and earnings and said Covid-19 had impacted significantly. McDonalds also posted disappointing results. The Dow dropped 0.77% and the S&P 0.65% as technology shares were sold ahead of the congressional hearings. The Nasdaq lost 1.27% and there was some rotation into airlines on reopening hopes. The Vix remained at 25. The S&P has been hugging its December 31st closing level of 3218 since late June and it appears it may spend the summer in this trend. On **Wednesday** Visa , AMD and EBay all saw price targets raised by various brokers after reporting. Boeing reported a bigger than expected earnings loss and announced a slowdown in production rates for some aircraft including the 737 Max. Starbucks reported better than expected numbers and said business was recovering as lockdown eased. The four tech shares (Apple, Alphabet, Facebook and Amazon) of the CE0's who testified in front of US lawmakers all rose as investors concluded there was no current risk of a breakup. The Dow and S&P added 0.61% and 1.24% respectively and the tech heavy Nasdaq rose 1.35%. Vix hit 24. The futures markets were lower on **Thursday** as investors held their breath ahead of some big technology earnings. The same four companies who faced Congress now face their investors. Weekly jobless claims figures rose 12,000 to 1.43 million illustrating that the recovery was stalling. UPS reported better than expected results as a surge in home deliveries helped sales. Procter & Gamble also beat earnings as consumers bought more cleaning products. PayPal was another beneficiary of the Virus and easily beat forecasts as e-commerce transactions jumped. However it was when President Trump suggested that the US election in November should be postponed that the selling really began. The Dow dropped 550points after the open but managed to claw some points back and only lost 0.85% on the day. The S&P slipped 0.38% and the Nasdaq added 0.43% ahead of the big earnings reports. **Friday** was a reaction to the fantastic earnings produced by Apple, Amazon and Facebook which all helped to boost markets. The Dow and S&P added 0.44% and 0.77% but it was the Nasdaq that outperformed jumping 1.49%. The Nasdaq climber 3.67% for the week and the S&P 1.72%. July was also the fourth straight month of gains with the Dow adding 2.3% and the Nasdaq 6.8%
Low bond yields mean low returns and are helping support stocks now.

US Bonds

Bonds dipped and the ten-year ticked up from 0.58% to 0.6% in the overnight session going into **Tuesday** as the Democrats said they hoped they could agree the Republican's fiscal plan soon. The Fed kept rates unchanged at near zero and the ten year moved down to 0.554% on **Wednesday.** On **Thursday** bonds were rising again on the back of the GDP and jobless numbers. The 10-year yield dropped to 0.546% the lowest since April.
The bond market appears to be saying that on balance it looks like the recovery timeline will need to be extended.

GDP

The expectation was for an annualised decline of 34.1% versus Q2 2019. The actual figure was a 32.9% drop. The worst since records began in 1947. Consumer spending slumped 34.6% and this was the main cause of the slump as 70% of the economy is services. Business investment was down 27%. Not even the 1929 Depression or the Great Recession caused such a loss over such a short period of time.

European Markets

A very quiet day on **Monday** as traders awaited a wave of earnings. The Dax was unchanged on the day. European shares opened on a more positive tone on **Tuesday** on news of Moderna tests, Republican stimulus package and declining US cases. Spain announced it had lost one million jobs in the last quarter. Including furloughed jobs 26% of the labour force is on unemployment benefits. The Dax lost 0.31% to close at 12,835. European stocks struggled at the opening on **Wednesday** ahead of a vast amount of earnings and the Fed decision. The Dax closed 0.1% lower. On **Thursday** Germany reported that the economy had shrunk by 10.1% in the second quarter. A combination of this figure, US GDP and US jobless pushed European markets much lower. The Dax close with a loss of 3.45%. This was taken as old news as the economy is now open and Germany has Covid-19 under control. However, it shows the scale of the rebuilding challenge ahead. On **Friday** it was reported that the Eurozone had shrunk 12.1% in Q2 versus Q1. The Dax lost 0.54% to close at 12,313 for a weekly loss of 4.4%. The broader Stoxx index lost a weekly 2.51%

Asian Markets

Asian markets go a boost on **Monday** from Chinese Industrial profits for June which showed a 11.5% year on year growth. Shanghai added 0.26% but Japan, which had been shut for 2 days, fell 0.16%. the bank of Japan said the country's economy is expected to "pick up moderately" from the second half of 2020 but warned that it will not be at pre-Covid-19 levels until 2022. On **Tuesday** disappointing results from Japanese carmakers saw the index drop 0.26%. Shanghai added 0.71% as it continued to rebuild its uptrend.
Shanghai continued another period of outperformance adding 2.06% on **Wednesday** while Japan followed a depressed Wall Street and dropped 1.15%. Data showed that iPhone sales surged 225% in China during Q2.
Asian stocks were mixed on **Thursday** with Shanghai and Nikkei losing 0.25%. Japan reported better than expected retail sales in a sign that the economy was recovering and consumers a little more confident.
Chinese manufacturing PMI was better than expected and the index rose 0.52% for a weekly gain of 3.3%. Japan lost 2.82%, seemingly ignoring the good technology earnings in the US, for a weekly loss of 4.64%. Like a lot of major markets, the Nikkei has got stuck in a range.

Commodities

Oil & Gold

Gold shot up to $1980, a new record high, on **Monday** as the weaker dollar boosted demand form other currencies. Brent continued to trade around the $43.5 level it has been at for several sessions. Good news on **Tuesday** regarding declining cases in the US saw the dollar strengthen and the precious metal rally run out of some steam. Gold dropped to $1918 but Goldman Sachs raised their forecast to $2300 in the next 12 months. This is due to a potential second coronavirus wave, it's a hedge against inflation, negative real interest rates and US dollar concerns.
Brent jumped to $44.5 on **Wednesday** after an unexpected drop in crude stockpiles. The weaker dollar and Fed decision allowed gold to move back to $1950. On **Thursday** Brent dropped over 1% to $43.2 in response to a surge in global coronavirus cases around the globe. Gold consolidated its position at $1950.
Real rates continued to propel gold and it blasted through $2000 for the first time on **Friday.**

Sterling & Dollar

On **Monday** the dollar continued to slide as US-China tensions escalated and there was an expectation that the Fed will signal that rates will be low for years to come and possibly negative. Dollar short positions are at a two year high so there could be some dramatic moves should the news flow change direction. The Euro was above $1.17 and sterling at $1.285. Against a currency basket the dollar index was at a 2-year low. The dollar slide continued into **Wednesday** and after the Fed meeting the dollar was t $1.774 versus the Euro and $1.299 versus sterling.
Sterling got a boost to $1.301 on **Thursday** as reports stated that it was close to a trade deal with Japan. The dollar completed it worst month in a decade on **Friday** as President Trump's call for an election delay undermined the currency. Sterling was at $1.31and the Euro at $1.18.

Closing Thoughts

Equity markets continue to be choppy. There is a fine balance between the fiscal and monetary stimulus, which keeps investors buying, versus the state of company finances and the economic situation. There are growing concerns that the economy may begin to stall if the virus continues to increase creating a potential second wave and further lockdowns.

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