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Privateoffice Weekly Market Update – 21st September 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

Historically these are difficult weeks for equity investors. With the added complications of the pandemic, Brexit and US elections investors remain uncertain of the medium-term trend. A solid core to portfolios is vital.

Major Issues

OECD

The Organisation for the Economic Co-operation and Development has said that the global economy is recovering from Covid-19 pandemic faster than expected. The group notes that China and the US are in better shape now than it forecast three months ago. The global slump is now expected to be minus 4.5% this year and not minus 6% with growth of 5% in 2021 although this is still very uncertain.

FOMC Meeting

This was the last meeting ahead of the election and the Fed reaffirmed that it would remain accommodative and use all its tools if necessary, to combat the negative effect of the virus on the economy. The bank said that the economy had recovered better than expected and forecast GDP growth for the year at minus 3.5% versus minus 6.5%. It also said that interest rates would not rise until 2023. The Central bank has now shifted to inflation targeting which will mean a temporary rise in prices will be tolerated longer. The bank will also not want to cause unnecessary turmoil in the financial markets as we near the election. However, the Fed left the market frustrated as they provided no more stimulus, and this damaged markets on **Thursday**.

Covid-19

On **Wednesday** the CDC said that the US should have enough vaccine to return to “regular life” by third quarter 2021.

The United Kingdom

UK Equities

On **Monday** **“**phase 3” of AstraZeneca’s coronavirus vaccine resumed in the UK. There was a frenzy of international M&A deals to push sentiment higher. However, the stronger pound versus the dollar was a weight on international equities and the FT100 only added 0.02% whereas the FT250 jumped 0.57%.
The FT100 got a lift from a strong Wall Street session and added 1.32% to 6105 on **Tuesday.** The FT250 added 0.82%. **Wednesday** was spent watching the dollar weaken ahead of the Fed meeting and thus the FT100 fell

0.44% to 6078 due to overseas earners. The FT250 lost 0.11%. The Fed stated that interest rates would be low for years and thus upset the banks and dragged down the FT100 on **Thursday**. The FT100 lost 0.46% and the FT250 dipped 0.32%.

Retail sales figures on **Friday** showed a fourth consecutive month of growth but with the pace slowing. Shares in travel companies, hotels and pub chains all fell as it emerged the government was weighing up "circuit breaker" restrictions. The FT100 lost 0.71% on Friday making a weekly loss of 0.27%. The FT250 was unchanged over the week.

Employment and Wages

In the latest figures the UK jobs market took a step backwards edging higher from 3.9% to 4.1% (May to July). Redundancies showed the biggest quarterly spike since 2008. Most of the redundancies occurred in the hospitality, entertainment and leisure sectors. More than five million workers remain furloughed in a scheme that ends in October.

August Inflation

Headline inflation fell from 1% in July to 0.2% a five-year low. Core inflation fell from 1.8% to 0.9%. The fall was primarily due to the impact of the "Eat Out" scheme and the temporary VAT cut for the hospitality sector. Clothing and air fares also fell while gaming and hobbies saw increases. This leaves the BoE space for extra support of the UK economy without risking a surge in inflation. The coming increase in unemployment will also keep consumer prices lower.

Bank of England

The possibility of a no-deal Brexit means the outlook for the UK economy is extra uncertain therefore there will be no tightening but possibly more stimulus over the coming months. The unanimous decision was to leave rates at a record low of 0.1% and to leave the QE program unchanged.

The United States

US Equities

TikTok agreed a technology partnership with Oracle on **Monday** and there was also a large merger between biopharmaceutical company Gilead and cancer drug maker Immunomedics. The increased activity in the M&A market helped push the Dow and S&P 1.18% and 1.27% higher with the Nasdaq outperforming and adding 1.87%. It was a broad and healthy rally which also saw small cap stocks rise. The Vix fell slightly but remains elevated around the 26 level as there is some insurance being taken out ahead of the election. With the 10-year trading at 0.67% equities still appear decent value when compared to bonds. Encouraging economic data from China pushed their currency and commodity prices on **Tuesday**. There were also several IPO issues to please investors and boost sentiment. One was called Snowflake Inc, a cloud-computing company, backed by Berkshire Hathaway. Brokers notes gave price target increases for Nike and Mastercard. Factories in the New York state reported a strong pickup in demand for September. Other data showed that manufacturing continued to grow in August across the country but there has been a gradual slowdown in the rate since June. The Apple event which launched new product features also helped the Nasdaq extend its gain by another 1.21% to stand at 7% off the all-time high set before the correction. The Dow was unchanged, and the S&P added 0.52%. August retail sales were reported on **Wednesday** and showed an increase of 0.6% on the month, versus 0.9% for July. This was slightly less than expected and July was revised down from 1.2%. It is understandable after the surge post lockdown but still may spur policymakers to act. Chairman Powel suggested in his comments that the economic rebound could be at risk without more government spending. This saw a turnaround in markets and gains were lost with the result that the S&P and Nasdaq fell 0.46% and 1.25% respectively. The Dow managed to gain 0.13% and the Vix moved to 26.

On **Thursday** weekly jobless and continuing claims came in lower than expected. However, this good data could not stop the "petulant" equity market from stamping its feet due to lack of stimulus from Fed or government. Energy, technology and consumer cyclicals all declined in early trading as sentiment towards the economy weakened. The orderly correction/profit taking in the overbought Nasdaq continued dragging Apple, Amazon and Microsoft over 15% from their recent highs. The Nasdaq closed 1.27% lower back in correction territory. The S&P reversed significant losses which saw it below the 50 day-moving average (3335) and closed 0.84% down at 3357. The Dow lost 0.47% and the Vix ticked up to 26.6. Inventors were cautious on **Friday** as it was quadruple "witching day" when stock index futures, stock index options, stock options and single stock futures all expire simultaneously. The Dow dropped 0.88% for a weekly gain of 0.05%. The S&P lost 1.12% fir a weekly loos 0f minus 0.72% and the Nasdaq lost 1.07%

for a weekly loss of 0.6%. Apple has lost 22.5% in several weeks as the mega-tech companies see some of the recent rise eroded. This has helped drag the S&P down through its 50 day moving average which potentially can be a bad signal. In the next few trading sessions, it is vital that this level is tested and breached.

US Bonds

The ten year was trading at 0.667% on **Monday** despite money flowing into equities.
The result of the Fed meeting as expected and the ten-year remained at 0.67% on **Wednesday**. Low rates for years to come in the US shows the uncertainty surrounding the economy and this will keep bond prices high until a solid and sustainable recovery is underway.

European Markets

The strong Euro held back equities on **Monday**. The Dax lost 0.02%. The ZEW economic agency reported on **Tuesday** that German economic expectations had risen again in September. The Dax added 0.18% and another 0.29% o**n** **Wednesday** helped by a slightly weaker Euro. The declining technology sector dragged the Dax down 0.36% on **Thursday** and 0.7% on **Friday** for a weekly loss of 0.61%.

Asian Markets

A strong start on **Monday** as Softbank soared 8.96% following an announcement that the firm is set to sell chip designer Arm to US chip firm Nvidia. The Nikkei added 0.65% and Shanghai 0.57% as chip stocks across the region led the technology sector higher.
Asian markets were mixed on **Tuesday** as China reported encouraging data. The Nikkei dipped 0.44% while Shanghai added 0.51%. Retail sales in China rose 0.5% in August from a year ago, the first positive report this year. Industrial production grew 5.6% over the year but fixed asset investment declined 0.3%. The data was taken positively and gave a boost to the currency. It was reported on **Wednesday** that Japan's exports for August had plunged 14.8% as compared to a year ago. However, that was better than expected and the Nikkei managed a small gain of 0.09%. Apple suppliers across the region got a lift from the news of a new watch and iPad model. Shanghai lost 0.36% but does still hold the bulk of the mid-summer gains.
Asia caught the disappointment on lack of stimulus causing a weaker trading session on **Thursday.** There was also concern that the US rates will stay close to zero for years in order to reach the inflation target. The Bank of Japan kept monetary policy steady stating that the economy had picked up but remained in a "severe situation" due to the pandemic at home and abroad. The Nikkei fell 0.67% and Shanghai 0.41%.
Asia bucked the trend on **Friday** with the Nikkei adding 0.18% for a weekly loss 0f 0.19% and Shanghai a massive rise of 2.07% for a weekly gain of 2.38%.

Commodities

Oil & Gold

The weaker dollar allowed gold to move up to $1970 on **Monday**. On **Tuesday** the International Energy Agency forecast that oil demand would have a "treacherous" path ahead with rising coronavirus cases. Brent managed to hold the $40 level as data from China was positive. Brent jumped to $41 .57 on **Wednesday** as Hurricane Sally hit the Gulf Coast.
Oil continued to recover despite the rising lockdown situations and hit $43.4 on **Friday**. Gold remained at $1960 still under pressure from lack of stimulus pointers from the Fed.

Sterling & Dollar

The US dollar was slightly weaker on **Monday** as equities rebounded on Wall Street. Sterling rose to $1.288. Despite the rumblings over the government's internal market bill on **Tuesday** sterling still managed to move to $1.296 as investor "risk-on" appetite saw the dollar weaken. Nerves created by **Wednesday's** Fed meeting saw the dollar catch some safe haven funds and move to $1.294. Comments from the BoE on the "uncertainty" surrounding the UK economy and discussions on negative interest rates saw a further fall in the pound to $1.29 and €1.094.
The dollar's post Fed gains declined as investors focused on a long period of low rates and allowed sterling to move to $1.298 on **Friday**.

Closing Thoughts

We are in a seasonally difficult period and investors face both upside risk and downside risk. Potential vaccine versus increasing coronavirus cases. Further stimulus versus mass unemployment and stuttering economy. On top of this we have the uncertainty of the US election. Investors can be forgiven for sitting on their hands especially after the massive drop and recovery already witnessed in the S&P during 2020

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