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Privateoffice Weekly Market Update – 28th September 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

Another tough week for equity markets with investors too scared to be out of the market and too scared to sell. A caldron of complex and divergent issues.

Major Issues

US Stimulus Package

Republicans are pushing for a rapid appointment for the vacancy created by the death of Ruth Bader Ginsburg. However, the democrats are insisting that the issue waits until the November election. The clash is reducing the chances of a stimulus package being agreed.

Covid-19

Johnson & Johnson's vaccine candidate has entered late stage testing making it the fourth company backed by the White House program following Astra, Moderna and Pfizer.

The United Kingdom

UK Equities

Fears of another lockdown sent the FT100 tumbling 2% to 5890 on **Monday** morning. Travel companies, pub chains and hotel groups were the biggest fallers. Banks were hit with money laundering accusations and fears that another lockdown would lead to more bad debts. Barclays fell 6% and HSBC shares were trading at a 25-year low. British Airways parent company IAG fell 12%. Following the warning from Sir Patrick Vallance that the Covid-19 crisis was getting worse the FT100 continued to fall and closed 3.3% lower at 5804. If it had not been for a fall in sterling this decline would probably have been greater. The FT250 lost 3.98%. Land securities, the property firm, fell 2% on **Tuesday** following news that the government will tell people to work from home where they can. A prominent manufacturing outlook survey for the third quarter showed that on balance investment intentions were to cut rather than spend. The CBI also said that the manufacturing sector had suffered a slowdown during September and is still well below the long running average. The FT100 added 0.4% but the FT250 lost 0.29% as it is more exposed to the shut-down. The weaker pound versus dollar on **Wednesday** allowed the FT100 to gain some recently lost ground. PMI figures showed that growth in the UK economy was slowing, especially services, but with a reading of 55.7 for September it was a solid performance and much better than Europe. However, confidence is deteriorating, jobs are being lost and overseas demand is falling so the future does not bode well and the fragility of the recovery is being revealed.

The FT100 gained 1.2% and the less sterling sensitive FT250 added 1.02%.

Thursday was an awful day for the UK market and it lost 1.3% to close at 5822 with losses airlines leading the Covid-19 sensitive industries. The FT250 lost 1.12%. Public sector borrowing figures released on **Friday** showed that Britain's national debt at 102% of GDP. This was at the highest since 1961. Weak global markets pushed the FT100 to a four-month low of 5771. However, a weak currency allowed the FT100 to close 0.34% higher at 5843 for a weekly loss of 2.66%. The FT250 rose 1.44% for a weekly loss of 2.93%.

The United States

US Equities

Fears that the US Congress will not agree a fresh emergency aid package for the US economy weighed on markets in early **Monday** trading. The previous session saw the S&P fall to 3319 which was below the 50-day moving average (dma) of 3335 and thus a negative signal for technical traders. By mid-morning, the S&P had dropped 2.4% to 3251 and wiped out all its gains since August and 9% below the record high of September 2nd. The Dow was hit especially hard as oil and industrial stocks dropped. Banks were also down due to the investigation into money laundering. Peloton, owner of the internet enabled bike, jumped 5% as investors priced in new lockdown restrictions.

The Dow closed 1.84% lower a seven-week low. The S&P lost 1.6%, fourth day in a row of losses, but the Nasdaq remained unchanged as investors bought into perceived safety and home biased earnings. The economically sensitive cyclicals and industrials as well as re-opening travel and hospitality were hit the hardest.

Jerome Powell and Steven Mnuchin were in front of the Financial Services Committee on **Tuesday** to discuss pandemic responses. Powell stated that the central bank remains committed to supporting the economy through its policy tools for "as long as it takes". There were broker upgrades for both Apple and Amazon. Existing home sales increased during August. Technology led the gains as the FAANG stocks resumed their upward trends. The Nasdaq added 1.71% and the Dow 0.52%. The S&P recovered 1.05% to close at 3315 which is 20 points below the 50 dma. The Vix settled down around 27 having been above 30 in the previous session. Ralph Lauren was an example of how some companies in the "old economy" are reacting to the Covid-19 situation and how the market perceives this. The company announced job cuts and a restructuring. The market pushed the shares 5% higher despite this adding to the massive unemployment issue. Nike issued results which blew past analysts' expectations, and this gave sentiment a boost to the start of **Wednesday's** trading. Data showed that growth in the service sector for September slowed slightly to 54.4 from 54.6 in August but this was balanced by manufacturing which grew to a 20-month high of 53.5 from 53.1. The Nasdaq was pulled down by Tesla as investors reacted negatively to initiatives, outlined in its Battery Day, which could be three years away. Tesla lost 10%. The major equity markets declined after a series of warnings from the US Federal Reserve. Jerome Powell reiterated that the US economy still had a long way to go before recovery. The Fed sees a strong case for fiscal support, but Congress is still arguing over the bill. The Nasdaq dropped 3% to take it 12% from recent al-time highs. The S&P dropped 2.37% taking it close to a correction. The Dow lost 1.92% for a drop of 4.6% in 5 sessions. The Vix moved to 28.4. All 11 S&P sectors fell with healthcare the best performer with only a 1% decline. US futures fell on **Thursday** morning as Goldman Sachs slashed GDP forecasts in Q4 from 6% to 3% citing a lack of stimulus. Comments from the President that he would not commit to a peaceful transfer of power should he lose the election also hit sentiment. New home sales surged in August to a 14-year high. All the main markets added 0.3% in a "yo-yo" trading session. Traders remain nervous and have trust issues with the current market. It feels as if the current correction has washed out, but buyers remain scarce. Investors are fed-up of all the macro issues and are awaiting Q3 earnings for direction. On **Friday** slower growth in August durable goods figures, after a surge in July, suggest that the economy has cooled. Technology rebounded as many felt it has been oversold. The Nasdaq jumped 2.26% for a weekly gain of 1.1%. The S&P bounced off the 10% correction level, which is a similar level to where it started the year, adding 1.6% for a weekly loss of 0.6%. The Dow jumped 1.34% but lost 1.8% over the week.

US Bonds

The ten-year yield moved to 0.68% from 0.685% on **Monday** morning as equities continued to sell off. The pressure of bad political, economic and virus-related news during the week was followed by poor jobless numbers on **Thursday** and this pushed the ten-year yield to 0.65% as investors sought safety. Generally bonds have remained flat as multi-asset investors are finding them too unattractive.

European Markets

Deutsche bank fell 8% on **Monday** as a report stated that its money laundering vulnerabilities were well known to its top executives.

German's central bank warned that the recovery in Europe's largest economy was slowing and that the initial jump in factory orders after lockdown was fading. The Dax lost a massive 4.37% with fears of national lockdowns across Europe not helping.

The Dax added 0.4% as the Wall Street morning session traded nervously on **Tuesday**. The "flash" PMI figures for September were released on **Wednesday** and showed that the German service sector growth had slowed slightly but that manufacturing was continuing to roar ahead. France's figures were much worse with the service sector contracting again, as it has been severely affected by a recent pick-up in the virus. Overall, the Eurozone recovery barely grew in September with a reading of 50.1 versus 51.9 for August.

The Dax added 0.39%. On **Thursday** Morgan Stanley predicted that the weakening European economy would force the ECB to launch further stimulus before Xmas. The Dax lost 0.29% in a weak trading day for Europe. On **Friday** European banks continued to slide on fears over bad debts and low interest rates for an extended period. The Dax lost 1.09%in a bad week which saw a decline of 4.96%.

Asian Markets

The Japanese market was shut on **Monday,** and the rest of Asia reacted to news that several global lenders were identified in reports as having allegedly moved large sums of suspicious funds over a period of nearly two decades. The US government is expected to pursue fines. Standard Charter fell 4.5% as it is alleged that they did business with a company laundering money for the Taliban. Shanghai lost 0.63% following a dismal Wall Street session and increasing fears of another global lockdown. Airline shares across Asian markets slid on **Tuesday** and banks continued to fall. Shanghai lost 1.28% and the Nikkei remained closed.

Markets were mixed across Asia on **Wednesday** as they took some confidence from the Fed Chairman's remarks. PMI figures showed that Japan's economy had suffered its eighth month in a row of contraction.

The Nikkei lost 0.06% and Shanghai gained 0.17% in nervous trading reflective of the confusion in traders' minds. For every negative issue there is a potential positive. Major negatives, such as fresh lockdowns and lack of US stimulus, were the main issue on **Thursday** dragging Asian markets lower. Technology shares across the region fell after the US session. The Nikkei lost 1.11% and Shanghai 1.72%. A quiet **Friday** in Asia saw the Nikkei add 0.51% (0.66% weekly loss) and Shanghai decline 0.12% for a large 3.58% decline over the week.

Commodities

Oil & Gold

Despite the fears over another global lockdown gold weakened on **Monday** due to dollar strength. The commodity plunged 3.3% to trade at $1890. Oil took an even bigger hit losing 4% to trade at $41.5 as fears over demand increased. The fall was despite the third storm in a month hitting the Gulf of Mexico. Gold continued to slide during the week as the dollar strengthened and was trading at $1862 on **Friday**. It was the commodities worst weekly slump since March. Oil was steady over the week and remained around the $41.5, supported by lower inventories, despite worries over demand.

Sterling & Dollar

The dollar attracted safe haven buying on **Monday** as the economic threats from the pandemic increased around the globe. Sterling dropped to $1.281 from $1.296 and the Euro was also weaker versus the dollar.

Andrew Baily, the governor of the bank of England, ruled out using negative interest rates in the near future which allowed sterling to move to $1.286 on **Tuesday** morning. However, fears over European lockdowns and rising cases in the US saw a quick reversal and money piled into the dollar pushing the pound down to $1.273. Sterling was trading at $1.269 on **Wednesday** on fears that the shutdown would harm the economy. The dollar continued to strengthen against a basket of currencies as infections across the globe rose. The dollar index was at 94.13.

Sterling was trading at $1.27 on **Friday** as the dollar continued to show some good strength with a dollar index reading of 94.71. Ahead of the dollar there are the hurdles of further stimulus and the election. Therefore, despite Brexit it can't be ruled out that sterling could move higher.

Closing Thoughts

With no confirmed vaccine for the virus as Autumn approaches, there is additional strain on Western government resources as they attempt to stave off a second wave. In Europe higher levels of testing and lower positivity rates suggest the infection level is not as great as in the spring. However, the rapid spread remains a concern. Prospects of a sharp economic recovery are fading and the market is demanding further stimulus. However, sell-offs, as just witnessed in the US, will be contained by the low level of interest rates and vaccinee and stimulus hopes. We may find that the year's high has already been hit and volatility continues around the current ranges.

Markets will continue to be weighed down by rising cases, fresh lockdowns, election uncertainty and lack of fiscal support in the US. We must remember that the market is a discounting mechanism and the volatility we are experiencing is the market pricing in these factors. With a market experiencing a correction there remains 10% or so upside to be achieved should there be any good news.

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