Head Office:
The Stalls, Balcombe Country Estate, Haywards Heath Road, West Sussex, RH17 6QJ
Tel: 01444 615080 Fax: 01444 811285 DX: 57112 Crawley

London Branch Office:
2nd Floor, No.1 Royal Exchange, London, EC3V 3DG
Tel: 020 3751 6295 Fax: 020 3751 6298

E-mail: enquiries@private-office.co.uk Website: www.private-office.co.uk

Privateoffice Weekly Market Update – 5th October 2020

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Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

The week ended with President Trump testing positive for coronavirus and this will again focus investors' minds on the pandemic. There had been a feeling that the virus situation was becoming more manageable, but this thinking will be tested in the coming weeks.

Major Issues

US Election

The Presidential debate was both acrimonious and chaotic and probably did not change the views of the undecided voter. The markets do not like uncertainty and the result will have not changed this factor as we head towards the election. The futures responded by dipping 1% in Asian and European trading.

Covid-19

Data suggests the second wave of coronavirus currently spreading across Europe is only a tenth of the size of the first wave. There are 300,000 new cases every week, but scientists estimate that the weekly figure for April was 3,000,000. These went undetected as the swabbing and testing capacity was significantly lower.
The number of deaths remains low compared to the spring and survival rates have increased from 66% to 84%.

The United Kingdom

UK Equities

The jump in Chinese factory profits gave the FT100 a large boost on **Monday** morning. The index rose 1.58% in early trade regaining some of the losses from the previous week. All sectors were in the green led by banks and consumer discretionary. HSBC rallied 8% after a Chinese insurance company increased its stake. The FT100 added 1.46% to close at 5927 and the FT250 added 1.91%.
On **Tuesday** news of the global death total hitting one million had a negative effect on sentiment and stocks that were exposed to the pandemic, such as EasyJet, Next and Whitbread, all led the market lower. New Bank of England figures showed that 84,700 mortgages were approved in August which represents a surge versus July's 66,000. The FT100 lost 0.4% and the FT250 1.13%.
On **Wednesday** figures revealed the biggest annual jump in house prices since September 2016. Final GDP readings showed a 19.8% drop in Q2 GDP versus 20.4% originally calculated. The FT100 lost 0.53% in late trading due to a stronger currency. The FT250 added 0.83%. Factory figures reported on

Thursday showed that solid growth had continued during September. There was a dip in the reading from August's 30-month high of 55.2 to 54.1 but overall a pleasing performance with exports surging. The FT100 added 0.23% and the FT250 0.39%.
The UK equity market was on the slide from the start of trading on **Friday** due to positive test for Mr Trump. However, despite a weak Wall Street the FT100 managed to add 0.39% for an increase of 1.15% over the week. The FT250 was unchanged and rose 2% over the week.

The United States

US Equities

Stocks jumped in early **Monday** trading helped by Nancy Pelosi who said that a coronavirus aid-deal remains on the table and could be voted on soon. There was also more M&A deals and a positive sentiment from the Chinese Factory data. The IPO ETF hit a record high as more companies came to market. With the end of the month and quarter upon markets institutional re-balancing played a large part in the equity moves. Small cap stocks, energy, technology and banks were the leading sectors as a strong appetite to buy returned. The Dow added 1.5% and the S&P 1.6% as the Nasdaq outperformed with a gain of 1.9%.
On **Tuesday** figures revealed that strong demand from home buyers in July coupled with low mortgage rates saw prices accelerate by 4.8% annually. The closely watched Conference Board consumer survey showed that there had been a surge in September as coronavirus cases declined and the economy posted good numbers. This was the highest level since the start of the virus and the sub-survey showed that future expectations were also rebounding. However, month end trading, re-election hesitancy and rising virus cases resulted in the Dow and S&P falling 0.48% and the Nasdaq losing 0.29%.
Cyclical, small cap and value stocks underperformed as the market continued to churn around the same level that the S&P began the year and close to the 50-day moving average.
Disney announced on **Wednesday** that it was eliminating 28,000 jobs at its theme parks which were forced to shut during lockdown and have struggled since reopening. The White House said it is still hopeful of reaching a stimulus deal with the Democrats and although Steve Mnuchin and Nancy Pelosi failed to strike a consensus they are not giving up. The Chicago business index surged for September providing more evidence of a steadily improving US economy. Excellent figures on pending home sales sent builders higher. September was the first negative month since March, but the Dow ended with a gain of 1.2% and the S&P moved further away from the 50 daily moving average by gaining 0.83%. The Nasdaq slightly lagged but still managed a 0.74% increase.
PepsiCo reported numbers on **Thursday** which easily beat analysts' expectations. Weekly jobless and continuing jobless claims came in lower and better than expected. Figures showed that US consumers had been spending in August for the fourth month in a row. This was at a slower pace and helped by using some savings as incomes were lower. In line with China and Europe US factories reported solid growth for September with a reading of 55.4 versus 56. All this helped the S&P and Dow gain 0.53% and 0.13% respectively. Good guidance from the semi-conductor sector helped push the Nasdaq 1.42% higher.
Friday's news of a positive test for the President rattled markets. The Covid-19 relief plan was approved by the House of Representative but appears doomed by objections from the Republican controlled US Senate. The monthly US jobs report was slightly weaker than expected but did show that roughly 12million of the 22million jobs lost have been recovered.
Hopes of a stimulus saw a rotation out of technology and into cyclical, small cap and industrial stocks. The Nasdaq lost 2.22% but managed a gain of 1.5% for the week. The S&P lost 0.96%, also a weekly 1.5% gain, to close at 3248 below the 3361 the 50-day moving average. The Dow lost 0.48% and added 1.9% for the week.

US Bonds

The ten-year opened on **Monday** at the 0.66% level which it had been trading at most of the previous week.
A flurry of good economic data in the US saw money flow out of bonds and pushed the yield to 0.691% on **Wednesday**.
The ten-year was trading at 0.657% on **Friday** morning as investors switched some funds into more stable assets during this uncertain time. However, towards the end of trading the ten year had moved back to 0.7% on stimulus hopes.

European Markets

There was a good bounce on **Monday** as European investors jumped on the Wall Street move higher. The Dax added 3.22% following a 4% plus loss the previous week as rollercoaster trading continued.
Inflation figures released on **Tuesday** showed that deflation had returned to Germany. The fall of 0.4%, year-on-year for September, was much worse than expected. Prices also fell 0.4% over the month. This will put pressure on the ECB to further stimulate the economy. Markets were cautious in early trading ahead of the Trump-Biden showdown and the Dax lost 0.35%.
Positive economic data from Germany on **Wednesday** showing

increasing retail sales was not enough to offset worries over the heated first presidential debate. However, the private payroll company ADP in the US reported that 750,000 new jobs were created during September and this boosted global markets. The Dax lost 0.5% mostly in late trading due to a stronger euro. Manufacturing growth in Europe was reported on **Thursday** as the PMI survey showed a jump from 51.7 in August to 53.7 in September. The highest reading in two years. Factory bosses reported that output and new orders both rose sharply, and exports surged as the global economy rebounded from the Covid-19 supply chain shock. The Dax lost 0.23% as Bayer results disappointed.

On **Friday** the Eurozone reported inflation at minus 0.3% year on year for September. This was the second month of deflation and below expectations. Possibly lack of demand and therefore no pricing power which may lead to more stimulus.

The Dax lost 0.33% for a weekly gain of 1.81%.

Asian Markets

It was reported on **Monday** that profits for China's manufacturing companies have grown for the fourth month in a row. In August they jumped 19.1% year-on-year as the economy. The figures suggest that the recovery gained momentum over the summer as Beijing's stimulus efforts kicked in. This has already helped certain commodity prices to rise which is good news for some large FT100 mining companies. The Nikkei added 1.32% but Shanghai continued to consolidate the large summer gains and declined 0.06%. Stocks gained in China on **Tuesday** after reports that Chinese leaders will support lowered economic growth forecasts for the next five years due to the pandemic and trade tensions with the US. China's central bank also reportedly vowed to step up fiscal support for the economy. Shanghai added 0.21% and the Nikkei 0.12%. China's official PMI reading for September came in at 51.5 on **Wednesday** compared to 51 in August. The private survey which looks at smaller companies also expanded coming in at 53. More good data from China but the US presidential debate overshadowed investors thinking and Shanghai lost0.2% and the Nikkei lost 1.5%. A technical glitch in Japan meant that trading in the Nikkei was halted on **Thursday**. The Tokyo stock exchange is the world's third largest after the New York and the Nasdaq. Shanghai and South Korea were shut for the remainder of the week. The Nikkei fell 0.67% on **Friday** in response to President Trump testing positive for Covid-19. The Yen benefited from the uncertainty created and this is bad for Japanese exports. Japanese household spending fell for the eleventh month in a row suggesting that the pandemic is still weighing on consumer confidence. This left the Nikkei down 0.73% on the week.

Commodities

Oil & Gold

Gold held at $1860 on **Monday** as the dollar rally halted ahead of the Presidential debate. Brent crude managed to tick up to $42 on the back of the Chinese data. Oil slipped to $41.5 on **Tuesday** on rising virus cases clouding demand. This helped gold move in the other direction to trade close to $1900. Gold was trading at $1919 on **Friday** on its safe-haven status after the President's test result. Brent moved in the opposite direction and fell 4% to $39.7.

Sterling & Dollar

The pound surged to $1.29/ €1.1053 from $1.27/€1.09 on **Monday** morning on hopes that a deal can be done with the EU and the BoE deputy governor rejecting negative interest rates.

On **Tuesday** the effect of the previous day's news wore off and sterling slipped back to $1.284 as more of UK regions shut down. The dollar was slightly weaker on **Wednesday** following the debate with the index trading at 93.95 . Sterling was strong ahead of more announcements regarding coronavirus and Andy Haldane's prediction that the UK economy will grow 20% in Q3. The pound traded at $1.292.

Sterling fell to $1.284 on **Thursday** as the EU began legal action against the UK after lawmakers approved the controversial Internal market Bill despite it possibly breaching international law. One tweet saying that negotiations were going well was enough to propel sterling to $1.295.

The pound traded around the $1.291 & €1.103 levels on **Friday** as confusion surrounded the progress on Brexit negotiations.

Closing Thoughts

There appears to be a lot of anxiety priced into the market and a lot of hedging in place. History has shown that the election will only be a temporary issue and it will be the Federal Reserve and other central banks that will have more impact on equities.

The US President's positive Covid-19 test will add more uncertainty to an already confusing US election situation. We expect that technology will continue to hold up well but more cyclical companies that require an economic recovery will not benefit in the short term unless we see a stimulus package.

Graham Crawford
BA (Econ), ACIB, MCSI, MBA,
Investment Director
Privateoffice
ASSET MANAGEMENT LIMITED