Wealth Management
Weekly Market Update

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Market Update

Stock markets closed up last week, with the technology-heavy NASDAQ 100 even reaching an all-time high. Cyclical sectors such as Oil and Financials lagged as economic conditions remain weak and second wave fears continue to build, with increased use of local lockdowns. The rally in risk assets was fuelled by a few pieces of strong economic data, such as US pending home sales figures significantly exceeding expectations and non-farm pay rolls posting a record gain of 4.8mn jobs in June. UK stocks have lagged developed market peers, driven by a cyclical sector bias and Brexit fears hurting sentiment. Major UK employers such as Royal Mail, Accenture and Airbus also announced job cuts, indicating that furlough measures may have reached their limit. US stocks led the rally, up +3.1%, while UK stocks were flat over the week. UK sovereign bond yields increased over the week, as did the yield on the US 10Y Treasury which closed at 0.67%. Gold was flat in US dollar terms, while Oil rallied +5.6%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
► 0.0%	▲ +3.1%	▲ +1.4%	▲ +2.3%	▲ +2.6%	▼ -2.7%	▼ -0.3%	▲ +1.2%

all returns in GBP to Friday close

Macro News

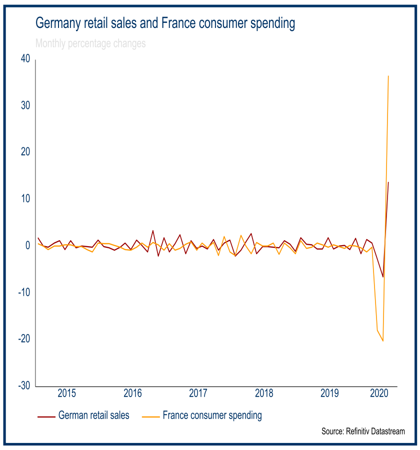
- Substantial differences remain between the UK and the EU over a post-Brexit trade deal, following the latest negotiations in Brussels. Boris Johnson said a "good deal" was achievable but it must recognise UK sovereignty in critical areas such as fishing.
- Boris Johnson announced last week that the UK will open a path to citizenship for Hong Kong citizens after the introduction of a new Chinese security law.
- A flurry of job losses are expected over the coming weeks in the UK, in particular large losses are expected within sectors hardest hit by the lockdown measures such as aviation and retail.

The Week Ahead

- Italian retail sales figures will be released this Tuesday. Italy was the first European nation to go into lockdown and investors are keen to observe how consumers are responding to the reopening of the economy.

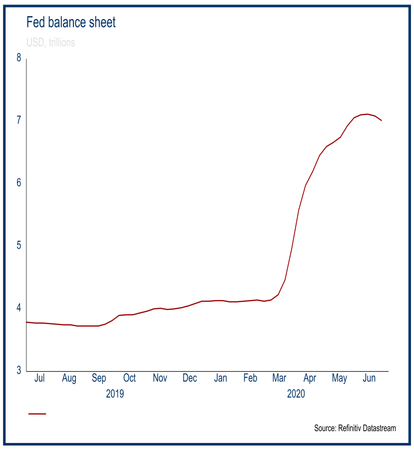
Week in Charts

Fig 1: European Consumption Figures



Consumer spending has seen a sharp rebound in Europe. Does this signal faster than expected economic recovery?

Fig 2: Fed Balance Sheet



The slight reduction in the size of the Fed's balance sheet, following the massive growth at the start of the COVID-19 crisis, has coincided with the flat-lining of equity performance globally.

View From the Desk

Another week of positive economic surprises passed, while global equities remained near their recent high levels they have been trading at for almost a month. A casual read of the situation could be that the markets had previously run ahead of themselves, and since the economy is now repairing stocks are taking their customary summer breather in anticipation of better data. However, we believe the situation is a bit different. Global stocks peaked in the second week of June and have been trading at roughly those levels for a month. Not incidentally, in the same week we observed that Fed balance sheet assets had peaked. Thereafter, the Fed, which had been buying mostly short-term securities it can easily let expire, has reduced its $7.16tn balance sheet by about $160bn. Thus, as new money stopped flowing, stocks stopped climbing, in line with our longer-term view that asset reflation, not fundamentals, are driving this market. Meanwhile, we observed another bad week for UK risk assets, with UK large caps now 18% below the MSCI World since the beginning of the year in same currency terms. UK stocks have underperformed their global counterparts in every week but seven this year. We believe that now investors are faced with three key questions that need answering:

1) Will the economic recovery happen faster than we previously expected?
2) Have stocks peaked or will the Fed press on with purchases?
3) Why are UK stocks underperforming so much?

The jury is still out on all three questions. We believe that, while data is encouraging, we would need to see persistent evidence of a demand resurgence before our economic outlook is improved. Given that, we expect the Fed to remain very accommodative for the next few months at least. As for UK equity indices, we think that the confluence of a sharp economic slowdown and heavy weighting to troubled industries (oil, banks) is the cause for the downward trend. In part, it is cyclically reversible but investors need to think carefully about the long term implications of COVID-19 and a potential hard Brexit on the economy and risk assets.

David Baker, CIO