Wealth Management Weekly Market Update

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Market Update

Despite recent strength, equities closed lower last week as tensions between the US and China were ratcheted up, with the forced closure of the Chinese consulate in Houston and the arrest by the US of a Singapore national who has admitted spying for China. In response China has ordered the US consulate in Chengdu closed. Global equities fell -2.1% in Sterling terms, with UK and US markets worst hit, both down -2.2%. EM, European and Japanese equities were also negative, down -1.4%, -1.6% and -1.6% respectively. Meanwhile global yields fell, with 10Y Gilts and 10Y Treasuries closing the week at 0.144% and 0.589% respectively. As such Gilts returned +0.3% for the week. Gold rallied +5.0% in USD terms and is trading at all-time highs, while Oil rallied +1.3% overall last week, although fell at the end of the week on the US-China news.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -2.2%	▼ -2.2%	▼ -1.6%	▼ -2.1%	▼ -1.4%	▼ -1.6%	▲ +0.3%	▲ +1.8%

all returns in GBP to Friday close

Macro News

- EU leaders struck a deal on a post-coronavirus recovery package. The deal involves €750bn in grants and loans to counter the impact of the COVID-19 crisis on the trading bloc. The deal also contains a €390bn programme of grants to member states hardest hit by the pandemic.

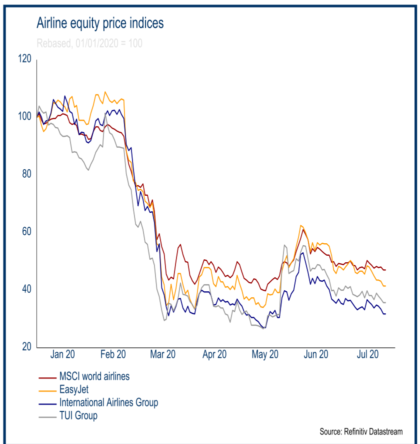
- UK retail sales were up to near pre-lockdown levels in June, as the reopening of shops released pent-up demand from consumers. As expected, the coronavirus lockdown has seen a shift towards more online spending, with online sales now accounting for £3 out of every £10 spent by consumers according to the ONS.

The Week Ahead

- Markets will be watching to see whether US Congress can pass an extension to the CARES Act that provided support to Americans in light of the COVID-19 crisis. Democrats in the House have passed a $3tn package, with Republicans in the Senate likely to be keen on a figure closer to $1tn.

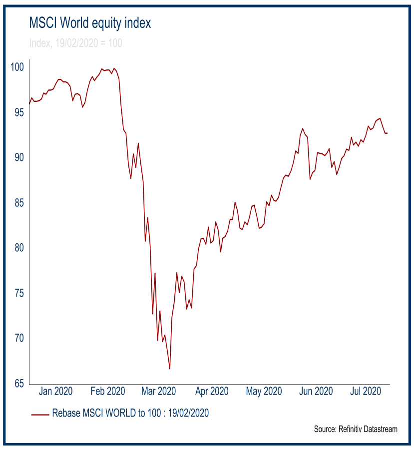
Week in Charts

Fig 1: Airlines struggle



Airlines remain down 50-70% since the start of the year, with restrictions on flying between many parts of the world. The UK re-imposed a 14 day quarantine on travellers returning from Spain. Similar actions on other holiday destinations would severely limit any expected recovery in the sector.

Fig 2: Stock markets



Overall equities remain down c.3% for the year and c.8% from their February highs, having fallen over 30%. Sectors such as Healthcare and Technology have generally been beneficiaries of the crisis, while Energy and the aforementioned Airline sectors have been particularly hit.

View From the Desk

As we enter reporting season, when usually we would be paying close attention to the percentage of companies beating earnings expectations (usually around 75%), although earnings remain important, they are unlikely to represent a guide to most firms' long term profitability. Indeed many companies have eschewed offering guidance on earnings, with analyst estimates likely to be less accurate than usual, so whether a company beats these expectations is less of a concern than in 'normal' times. Of course the levels of earnings will be interesting as a view to how well companies and the economy are faring in these difficult times, so we would be more focused on the prospects for companies facing serious losses. As we have said before, with central banks' use of QE at record amounts, fundamentals are less important for the performance of equity markets on the whole, at least in the short term. This will continue as long as central banks support markets with QE, there is confidence QE will continue to make a difference, and as long as inflation remains at bay. Why could QE stop making a difference? One answer is an increase in corporate insolvencies, since QE isn't directly supporting company balance sheets, which is why the health of companies, rather than their earnings, is so important right now.

David Baker, CIO

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