Wealth Management
Weekly Market Update

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Market Update

Major indices closed down for a second week running, with investors reacting to a flood of quarterly earnings reports and some prominent economic data. US corporate earnings were in the spotlight during the week, with tech giants Facebook, Amazon, Apple, and Alphabet reporting mostly healthy gains in revenues despite the pandemic. Energy stocks recorded the largest declines, dragged lower by Chevron and ExxonMobil, following reports of steep second-quarter losses. Global equities fell -1.8% in Sterling terms, with Japanese and EU markets worst hit, down -6.3% and -4.3% respectively. US, UK and Emerging Market equities were also negative, down -0.7%, -3.7% and -0.7% respectively. Record low US GDP data, election worries and an uncertain fiscal backdrop pushed the yield on US 10Y Treasuries to the lowest level since early March, closing the week at 0.528%. The 10Y Gilts yield closed the week at 0.104%, with returns of +0.5%. Gold rallied +3.9% in USD terms and is trading at all-time highs, while Oil fell -4.5% last week.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -3.7%	▼ -0.7%	▼ -4.3%	▼ -1.8%	▼ -0.7%	▼ -6.3%	▲ +0.5%	▲ +2.3%

all returns in GBP to Friday close

Macro News

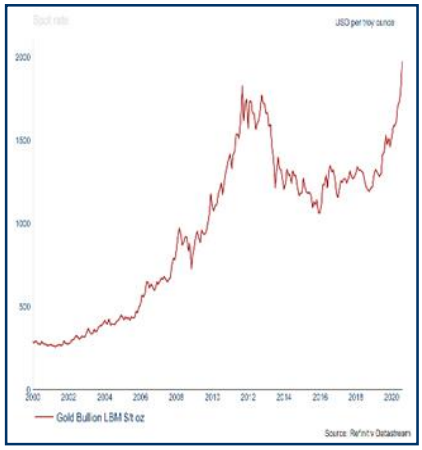
- In a difficult week for US economic data two statistics stood out. US GDP saw the worst decline on record in Q2, falling 32.9% on an annualised basis. US initial jobless claims rose for the second consecutive week, reaching 1434K. The US now faces the prospects of 20 straight weeks of initial claims above 1 million should this continue for another week.
- EU economic data disappointed, with preliminary GDP data falling 12.1% QoQ and 15% on an annualised basis. However, July data for inflation saw an improvement with slight rises. Core CPI rose 1.2% on an annualised basis, up from 0.8% in June. This was supported by better than expected retail sales in Germany for June.

The Week Ahead

- Focus turns to the Bank of England this week where there are rising expectations of negative rates over the next year. Andrew Bailey has described the controversial policy as under 'active review'. Negative interest rates are controversial due to their detrimental impact on bank profits and incentives to lend.

Week in Charts

Fig 1: Gold Price



Gold reached all-time highs last week against a backdrop of weak economic data in the US and Europe, and rising uncertainty over US -China relations, with the closure of the Chinese Consulate in Houston being met with the closure of a US Consulate in China. There could still be further upside to the Gold rally with low and negative interest rates expected over the long-term and markets anticipating cuts from the BoE.

Fig 2: FTSE struggles relative to US

Whilst both indices fell sharply in March, the American index has seen a much greater bounce back since. US markets are up YTD, whilst the FTSE is down over 20%, which can be explained by the make-up of the indices. The FTSE has large weightings in 'old-world' companies including oil, mining, banking & tobacco. The S&P is buoyed by an overweight to technology which has seen enormous growth this year.

View From the Desk

US stocks are back near all-time highs, against a backdrop of a post-war record economic slump of nearly 10% and an earnings drop of over 35%. While this is consistent with our model, that markets mostly care about the amount of near-free cash in circulation, we also feel that investors are maybe disturbingly oblivious to major risk build-ups. For one, a second viral wave is hitting the US and other big economies around the world, with mortalities rising near their previous peaks and no universal vaccine solution until at least the end of the year. Second, liberal economies across Europe and the Americas, long depending on monetary policy to substitute politically difficult budget initiatives, are finding it difficult to agree on the size and manner of desperately needed fiscal stimuli, risking compounding job losses and business closures. Complicating matters, political uncertainty is once again becoming thematic, as US President Donald Trump all but confirmed last week that he has no intention to concede a possible defeat on the night of the election, while Germany is still soul-searching about what the post-Merkel era will look like. Should investors heed these concerns and pro-actively reduce risks? We believe that this is not necessary, as aggressive monetary policy has often proved more potent than short-term risks. But we can't see possible fresh highs in global stocks becoming a signal to add risk either, as the course of the pandemic may fundamentally shift economic and financial realities. Instead, risk has to be taken in a measured way, and with investors prepared more than ever to challenge even their long-term asset allocation assumptions.

David Baker, CIO

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