Wealth Management
Weekly Market Update

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Market Update

All major developed market equity indices posted positive returns last week, while Emerging Market stocks closed marginally down. Global equities gained +0.8% in Sterling terms and the S&P 500 traded +0.2% higher, with the index just below its February peak. Japanese stocks rallied +4.0% in Sterling terms, partly driven by strong performance from Sony and Nintendo which have seen their core products, electronics and video games, benefit from greater home entertainment demand in lockdown. UK and European markets were up +1.3% and +1.6% in Sterling terms respectively. These gains came despite daily new COVID-19 cases increasing across Europe, prompting the UK to add France to its 14-day quarantine list. Markets also reacted positively to Russia announcing it had approved its "Sputnik" coronavirus vaccine, but enthusiasm quickly dropped after experts warned that it was being released without extensive testing. The yield on the US 10Y Treasury rose 14.5 basis points for the week to close at 0.709% on greater inflation fears. The 10Y Gilt yield closed the week at 0.243%, 10.4 basis points up, resulting in a -1.4% loss for investors holding the asset class. Gold was down -4.9% in USD terms, while Oil prices rose +1.9%.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.3%	▲ +0.2%	▲ +1.6%	▲ +0.8%	▼ -0.1%	▲ +4.0%	▼ -1.4%	▲ +0.3%

all returns in GBP to Friday close

Macro News

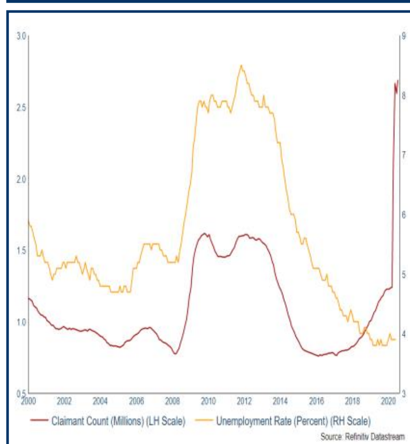
- The UK unemployment rate for the three months to June remained unchanged at 3.9%, beating expectations of a rise to 4.2%. The headline unemployment rate does not include furloughed workers, zero-hour workers without shifts or those on unpaid leave. As such we expect this figure to trend upwards as generous government schemes subside over the coming months.
- GDP fell by 20.4% in Q2 in the UK. Only Spain has fared worse in Europe. A longer lockdown and a more service oriented economy has hurt the UK through the pandemic. The recovery has appeared stronger than first anticipated however, as GDP grew 8.7% month-on-month in June

The Week Ahead

- Preliminary Purchasing Manager Index data comes out across Europe this Friday. The EU is expected to see a slight drop in the composite level, though firmly in positive territory. The UK is expected to see an increased rate of growth in both services and manufacturing.

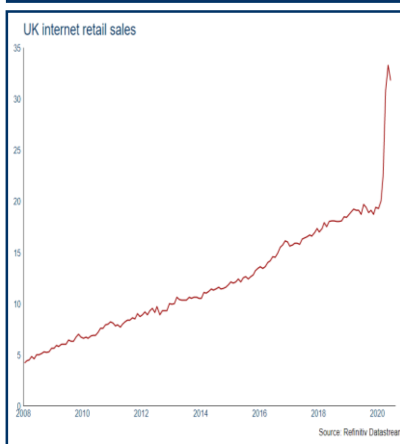
Week in Charts

Fig1: UK unemployment figures



Even as the UK unemployment rate remains low, the claimant count has soared, well past levels seen during the Global Financial Crisis. Unemployment is subject to surveying error and is more backward looking as the rate considers the previous three months. The claimant count is concurrent and shows a more timely change in those seeking unemployment benefits.

Fig 2: Internet share of UK Retail Sales



Whilst on a continuous upward trend, the COVID-19 pandemic has accelerated the trend in the growing share of sales obtained via the internet. This has exacerbated questions about the ongoing health of the high street. Some of the gains are likely to be ceded as lockdown restrictions are lifted, but this remains a key metric to focus on for the shift to a 'new normal'.

View From the Desk

Despite the S&P 500 cruising near all-time highs on central bank liquidity, investors took note of lasts week's GDP figure in the UK. Economic activity for the year to June fell -20.4%, a post-war record drop and by far the highest among G7 countries. The number underscores a confluence of idiosyncratic problems: a sluggish post-referendum economy and Brexit uncertainty, one of the highest COVID-19 mortality rates in Europe, high sensitivity to sharply deteriorating global trade and money flow conditions, and high dependency on services. A "V" shaped recovery is now a very low probability event, as an economic contraction of this size and a steep rise in new COVID cases severely augment unemployment pressures, which may be devastating for consumer confidence. The drop significantly limits the government's options. Like many other countries, further fiscal measures will probably be sought to tackle the economic devastation of the pandemic, in conjunction with the upcoming Brexit bill and concomitant economic pressures. Those solutions will probably involve an increase of public debt bought by the central bank, which will create new money for government to spend. This process is known as "helicopter money", and we suspect that it will become the modus operandi for many economies in the next few years. The question is: Will this policy create excess demand and thus inflation? The jury is still out. Consumers have tended to save and invest more than in the past, so there's still a good chance that it will not. If it does, however, then over-indebted economies might find themselves in over their heads. While some inflation may be good to pay off debt, it is also detrimental to consumers, and few governments have survived a material deterioration in the standard of living, especially if taxation has to be increased to mitigate some of the fiscal pressures. High inflation may also cause rate hikes which will make debt repayments very difficult to meet for governments and companies alike. Economic activity has been so badly damaged that there are no easy economic solutions from this point on, even if a COVID-19 vaccine is distributed tomorrow. Ultimately, in a world where perma-sluggish growth has met a global catastrophe, new economic, financial and maybe even political theories will be sought to provide answers that current ones fail to do so.

David Baker, CIO

Important information

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