Wealth Management Weekly Market Update

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Market Update

Globally stocks were negative in local terms, losing -1.3% for the week. However Sterling weakness, which saw it worst week since March, saw global stocks rise +2.2% in Sterling terms. UK stocks performed well gaining +4.0% for the week, with Housebuilders and Healthcare both rising by over 6%. The FTSE 100 typically has an inverse relationship with Sterling since in the region of 70% of its earnings are overseas which are boosted as the Pound depreciates. Japanese equities rose +4.9% on the week in Sterling terms as Abe's number two Suga became a clear favourite to assume power. EU stocks also rose in both local and Sterling terms, in spite of Brexit and a lack of extra monetary stimulus from the ECB. Globally Materials was the best performing sectors, with IT and Energy the main detractors. Oil prices were down -2.8% in US Dollar terms, below $40 which drove the sector's underperformance. Yields generally fell and yield curves flattened. The US 10Y is now trading at 0.67%, down over 2% for the year. Gold rose +3.9% for the week to $1,946, edging closer to its all time high.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +4.0%	▲ +1.0%	▲ +5.7%	▲ +2.2%	▲ +2.9%	▲ +4.9%	▲ +0.9%	▼ -3.6%

all returns in GBP to Friday close

Macro News

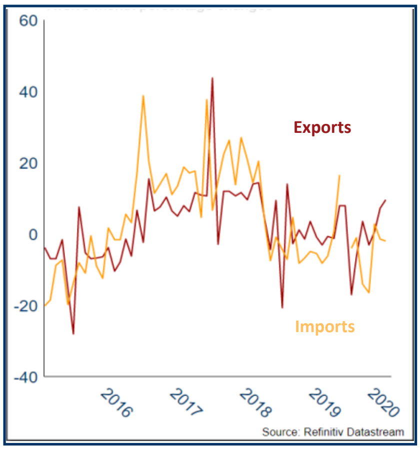
- Exports from China soared +9.5% YoY to USD 235.3 billion in August, above market forecasts of +7.1% growth and after a +7.2 % rise a month earlier. Chinese exports have been boosted by record shipments of medical supplies and robust demand for electronic products. Meanwhile, imports to China unexpectedly fell by -2.1% YoY to USD 176.3 billion in August following a -1.4% drop a month earlier. This was the second straight decline in imports, due to weak domestic consumption.
- The ECB kept its key interest rate unchanged at -0.50%. Under the new economic projections, the Euro Area economy is seen contracting -8% in 2020, a slight improvement from its June forecast, with inflation forecasts for 2020 were left at 0.3%

The Week Ahead

- The US Federal Reserve's economic projections and interest rate decision will be announced this Thursday. Recently, the Fed unveiled a new monetary policy framework under which it will seek an average 2% inflation rate over time and "broad-based and inclusive" gains in the jobs market. The Federal Reserve left the target range for its federal funds rate unchanged at 0-0.25% on July 29, but opened the door for further monetary easing to support the world's largest economy through the pandemic.

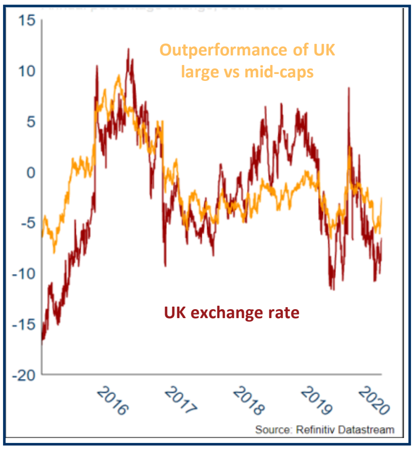
Week in Charts

Fig1: China Exports vs Imports in August



China's exports jumped +9.5% in August YoY, the highest increase of any month this year. However imports to China unexpectedly fell by -2.1% due to weak domestic consumption. The country returned to growth in the second quarter after new cases of coronavirus slowed to a trickle and lockdown measures were eased.

Fig 2: Sterling Impact on UK Equities



Sterling weakness drove returns for British investors, once again highlighting the inverse relationship between Sterling and the performance of large-cap equities. As the chart above shows, depreciation of sterling has a negative effect on the performance of the mid-caps, where smaller companies are more domestically focused, than on the globally focused large-caps.

View From the Desk

Brexit is back in the spotlight with a vengeance, as the UK government introduced a bill which would override key points of the agreement struck with the EU less than a year ago. In terms of risk assets, the reaction was expected as the GBP's drop of 3.1% was followed by a 1.7% out-performance of UK vs international stocks (in same currency terms), a very familiar pattern since 2016. In spite of positive equity and bond returns, at a time of directionless markets, massive quantitative easing and an ongoing global pandemic, risk assets are of little use as a predictor for developments in the real economy. Despite the fact that UK large caps, dominated by companies which are merely listed in the UK and not holding the bulk of their operations there, outperformed, mid and small caps, primarily companies with a lot of exposure to the British economy, did not. The simple truth of the matter is that demonstrating a willingness to retroactively adjust signed agreements in a matter of months makes reaching a trade deal all that more difficult, not just vis-à-vis the EU but with any potential trading partner. And while perceived freedom from strict EU laws could in theory give a competitive edge to the UK, the signing of trade deals on the EU blueprint which prevents state aid, like the $15bn trade deal with Japan last week, suggests that the need for quick trade deals could weaken the UK's hand. Thus we estimate that probability of more benign trade scenarios are now lower. Investors exposed to the real economy, already reeling from the COVID-19 crisis, should prepare for a world where Britain will be trading with the EU in WTO terms, but is still not able to subsidise key industries because of promises made to its new trading partners.

David Baker, CIO

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