Wealth Management
Weekly Market Update

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Market Update

Globally stocks were negative in local terms for the second successive week, losing -1.2%. Sterling recovered some of its losses against the US Dollar, up +0.9% despite comments from the Bank of England suggesting an increased likelihood of rate cuts. UK stocks outperformed global stocks in Sterling terms, losing -0.4% over the week. Retail and Healthcare were the two best performing sectors, whilst Energy and Financials (two of the largest sectors in the large cap index) were the main detractors. Japanese equities enjoyed another positive week rising +1.0%, the best performance of the major equity markets. European stocks were flat but fell -1.0% in Sterling terms. Healthcare and Materials led global sectors whilst Consumer Staples and Telecommunications lagged in a week with no clear trend for cyclicals against defensive sectors. Oil prices rose +8.7% for the week as markets responded to Saudi Arabia's leadership at the most recent OPEC meeting, warning noncompliant members against overproduction. Yields generally rose, although the UK 10Y was almost unchanged up only 1 basis point. The US 10Y is now trading at 0.69%. Gold fell -0.7% for the week to $1,951.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -0.4%	▼ -1.8%	▼ -1.0%	▼ -1.2%	▲ +0.3%	▲ +1.0%	▲ +0.1%	▲ +0.9%

all returns in GBP to Friday close

Macro News

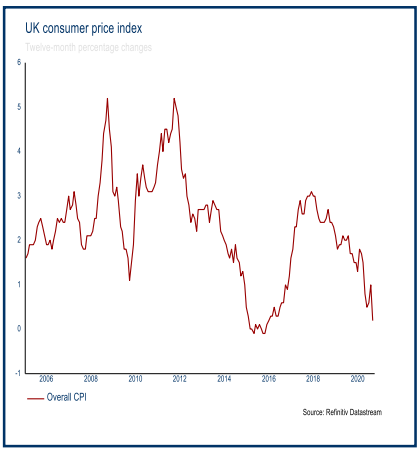
- The Bank of England surprised markets, announcing they are looking to 'begin structured engagement' regarding negative interest rates. Yields and Sterling fell in response to the BoE's comments which imply an increased likelihood of future rate cuts.
- US Retail Sales disappointed, growing at just 0.6%, down on the July figure and missing expectations of 1% growth.
- US Consumer Sentiment ticked upwards, the preliminary reading was 78.9 up from 74.1 and is the highest reading since March. This still represents a significant fall on the February reading, but shows some evidence of a road to recovery, with consumer sentiment often a powerful leading indicator of the economy.

The Week Ahead

- Preliminary PMI readings will be released in the Eurozone and the UK on Wednesday. Markets are anticipating a slight fall from their previous readings as the recovery begins to moderate. Much of the short-term recovery appears to have been accounted for, with economies now moving towards a slower phase of recovery. Outlooks continue to be driven by news of possible lockdowns and a Brexit trade deal.

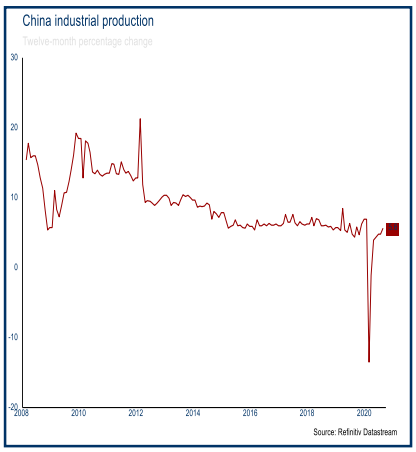
Week in Charts

Fig1: UK CPI



UK CPI inflation fell in August to 0.2% year-on-year. This represents a 0.8% fall relative to the last reading where inflation surprised to the upside. Driving this reversal was a 4.6% fall in hospitality prices such as restaurants and cafes, as the 'Eat Out to Help Out' scheme lowered prices. UK inflation outlooks continue to remain anchored to the lower side of the 2%, plus or minus 1%, target over the short to medium term.

Fig 2: Chinese Industrial Production



Chinese industrial production moderately improved to 5.6% year-on-year growth in August. This reflects a return to levels observed in the year leading up to the COVID-19 pandemic. China continues to lead the rest of the world in its recovery, due in part to its early outbreak and relatively successful containment measures. China's recovery has been buoyed by large government intervention to support production in the state-dominated economy.

View From the Desk

Markets lost some more momentum last week after the Fed avoided any changes in its quantitative easing programme on Wednesday. US large-caps, which saw their first negative 3-week streak in nearly a year, are now 7% below early September highs. Expectations for more liquidity were built on the back of the Jackson Hole meeting, where the US central bank said it would relax its 2% inflation threshold before raising interest rates again. QE has, and continues to be, the primary driver of risk asset returns over the short and longer term. When the Federal Reserve is in "printing mode", any dip is considered an opportunity by traders and investors. When it is not investors, who have for the past 12 years been rigorously trained in Pavlovian fashion to watch the Fed, become nervous.

Despite some initial disappointment we believe that the Fed President deliberately kept some powder dry ahead of almost assured market and political pressures for even cheaper money in the months ahead.

On the one hand, the slightly underwhelming delivery is really down to expectations management, without which the Fed could quickly reach a point where it could no longer satiate the gargantuan investor appetite for extra liquidity, therefore depriving itself of the ability to manage a very fragile and unpredictable recovery.

On the other, we would not rule out the private acknowledgment by a board of global-calibre economists that inflating valuations of financial assets and driving investments away from the real economy at the worst economic juncture since WWII may not be necessarily constructive or inflation-inductive. The Fed could and probably will work more on policy transmission mechanisms as banks, who have spent a decade becoming more conservative, are understandably reluctant to become responsible for loans to failing businesses. We would not call the end of QE expansion just yet. Increased volatility or negative COVID-related shocks would most probably see some use of that dry powder. But we may very well see a shift of the Fed's attention towards its policy effects on the real economy and the refining of measures to stop rising delinquencies, improve consumer sentiment and reduce savings rates.

David Baker, CIO

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