Wealth Management
Weekly Market Update

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Market Update

Major global markets were negative in local currency terms, whilst a weaker Sterling which was down -1.3% for the week against the US Dollar and -0.4% against the Yen ensured some pockets of growth for British investors. US stocks moved into correction territory (down 10% from peak) at one point. Although slumping to their fourth consecutive week of declines, UK stocks marginally outperformed their European counterparts with European PMIs showing evidence of stalling recovery. IT was the only positive sector globally. Utilities and Consumer Discretionary, both defensive sectors, were the next two best performing sectors. Materials and Energy were the worst performing sectors. Japanese equities were flat in Sterling terms having fallen -0.7% in local currency terms. Emerging Market equities performed poorly, losing -4.4% in local currency terms, or -2.6% after accounting for the performance of Sterling. Oil prices fell -0.6% for the week, relinquishing some of the strong rally from last week. Yields generally rose in US markets, although the US 10Y fell by 3.9 basis points. The US 10Y is now trading at 0.654%. The UK 10Y yield was largely unchanged for the second consecutive week, rising just 0.6 basis points. Gold fell -2.7% for the week to $1,859.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼ -2.7%	▲ +1.3%	▼ -3.9%	▲ +0.2%	▼ -2.6%	▶ +0.0%	▲ +0.2%	▼ -1.3%

all returns in GBP to Friday close

Macro News

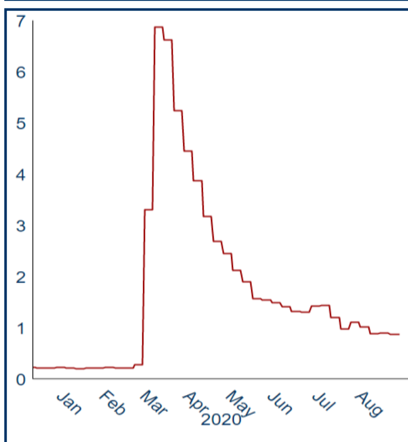
- Preliminary PMI readings for the Eurozone saw an uptick in the Manufacturing sector and a renewed downturn in the Services sector. The IHS Markit Eurozone Manufacturing PMI rose to 53.7 in September from 51.7 in the previous month, whereas the IHS Markit Eurozone Services PMI fell to 47.6 in September from 50.5 in the previous month, a preliminary estimate showed.
- In the UK, preliminary PMI readings showed a fall in both the Manufacturing and Services sector, with the latter signalling the weakest performance in three months and the first setback for the recovery since the turnaround began in May. The IHS Markit UK Manufacturing PMI fell to 54.3 in September from 55.2 in August and the IHS Markit/CIPS UK Services PMI dropped to 55.1 in September, from an over five-year high of 58.8 in August.

The Week Ahead

- This Wednesday, final UK GDP growth rate for Q2 2020 will be released. Preliminary estimates released earlier this month pointed towards a quarter-on-quarter decline of -20.4% in Q2 2020. The was the largest decline on record since comparable records began in 1955.

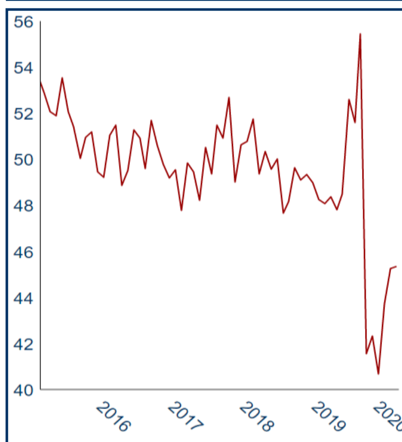
Week in Charts

Fig1: US Initial Jobless Claims



US weekly initial jobless claims have risen slightly, to 870,000, while continuing claims have declined much less than was expected, from 12.7 million to 12.6 million.

Fig 2: UK Consumer Sentiment



Britain's consumer sentiment improved slightly this month from August's rebound, following July's record low. The uptick was driven by households' greater confidence in the outlook for their personal finances and the general economy over the next year, as well as more willingness to make big purchases.

View From the Desk

The US market's 10% correction on an intraday basis last week was due to an initial correction of Tech stocks, exacerbated and broadened by the Fed's lack of willingness to further extend QE. The story of the week, however, isn't the negative stock returns, a run-of-the-mill correction whose narrative can also be justified by very high valuations, further Covid-19 uncertainties, traditionally bad Septembers and very high levels of net long positioning, some of which include fickle retail money. Nor is it the sensational negative stories coming five weeks ahead of the US election, as both sides now show their cards and prepare their final cases to the US electorate. The election is of course not meaningless, but today's electorates are often too ideologically entrenched and "swing voters" are much fewer than in the past to make a sizeable difference.

The story this week is talks within the Bank of England about pushing interest rates into negative territory for the first time in its history. The reasoning is that if depositors and the banks' own deposits are "punished" from staying idle, some can be invested in the real economy. It is a far easier and manageable solution than waiting for inflation - which has been all but extinct in the past 20 years - to kick in. The strategy is of course a double-edged sword. On the upside, it might just contribute enough cash to avert an economic vicious cycle. On the other, one must remember that "investment" is a choice usually by an individual willingly accepting risk. "Willingly" is the operative phrase, as unwilling investors, already skittish on the Pound ahead of a possible Hard Brexit, might just find a better home for their money overseas or deposit it in schemes that are hardly an investment in the real economy at all. And this comes after more than a decade where savers, mostly of an older and very influential demographic, have paid the price of negative real rates (rate minus inflation), in previous efforts to save an ailing financial system. Banks might also feel the pain, as the effects on already frail profitability compounded by a rising number of loans "in the red", as well as very little real probability of a steepening yield curve, could be devastating for their balance sheets. European Banks, who for years have endured negative rates and have been one of the worst sectors globally, can attest to that. At this point, the BoE just opened up the debate. But investors need to watch closely, as this decision could have far reaching consequences in the years ahead.

David Baker, CIO

Important information

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