Wealth Management
Weekly Market Update

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Market Update

Major global markets were generally positive in local currency terms, but a strengthening Sterling, up +1.5% for the week against the US Dollar, eroded gains for British investors. US stocks recovered from their four-week losing streak to rise +1.5% in US Dollar terms, but would return -0.2% due to currency movements. UK stocks provided the greatest return to British investors after currency effects, up +1.1%. European equities were just behind, returning +1.0% in Sterling terms. Emerging Markets were the best performing equity markets in local currency terms, rising +2.2% for the week. Japanese equities sold off quite sharply this week, down -2.2% in Sterling terms, the only major index to fall in local currency terms. Utilities and Financials were the best performing sectors whilst the worst performing global sector was Energy. Oil prices fell -9.2% for the week, selling off sharply after a moderation the week before. Yields generally fell slightly in US credit markets, the only large movements coming in the high yield section. Government bond yields continue to be quite stable, the UK and US 10-year yields were up slightly by 5.7 and 4.6 basis points respectively. The US 10-year is now at 0.70%. Gold rose +0.3% for the week to $1,893.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +1.1%	▼ -0.2%	▲ +1.0%	▼ -0.2%	▲ +0.4%	▼ -2.2%	▼ -1.1%	▲ +1.5%

all returns in GBP to Friday close

Macro News

- China's manufacturing PMI was little-changed at 53.0 in September, slightly below previous month's PMI of 53.1, indicating factory activity maintained its recovery momentum in the wake of the Covid-19 epidemic. New orders grew the most since early 2011, with new export business expanding at the fastest rate since August 2017. Non-Manufacturing PMI for China increased to 55.9 in September from 55.2 a month earlier, signalling the fastest growth in the service sector since November 2013.
- The US economy added 661,000 jobs last month, easing sharply from an upwardly revised 1.4mn in the previous month, and below market forecasts of 850k. The US unemployment rate declined to 7.9% in September, down from 8.4 % in the previous month and below market expectations of 8.2%.

The Week Ahead

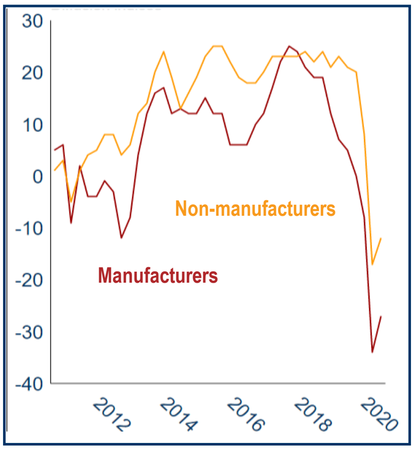
- This Friday, GDP growth rate for the UK will be released for the month of August. The UK economy contracted -11.7% year-on-year, but grew +6.6% month-on-month in July. Consensus forecasts the UK economy contracted -7.5% year-on-year in August and grew +4.6% month-on-month.

Week in Charts

Fig1: US Stocks Rebound

After a volatile September, last week saw another slow crawl of US stocks towards all-time high levels.

Fig 2: Japanese Business Conditions



Business sentiment in Japan is recovering slower than expected as the closely watched Tankan survey of manufacturers rose by only seven points from -34 to -27 in Q3 2020, compared with consensus expectations of -23.

View From the Desk

Last week saw another slow crawl of US stocks towards all-time high levels again, despite challenging fundamentals and political uncertainty. Meanwhile, Pound Sterling also rebounded at evidence of progressing talks between the EU and the UK. For all the sensationalism around Mr. Trump's health, unless it deteriorates critically we would not expect it to have any material impact on risk assets. We would also note that the mixed messages from the hospital and the White House around the President's status are part and parcel of situations like this. When Ronald Reagan was shot in 1981 his status remained unknown for a critical amount of time and the US faced a constitutional crisis over the chain of command - during the Cold War no less - when Secretary of State General Alexander Haig almost usurped power. During that time, the US Large-Caps lost a mere -1.2%. Investors should keep their eye on the ball, which in this case is the loss of rebound momentum for the economy, as well as deteriorating corporate fundamentals and the Fed's inclinations towards further quantitative easing. Last week's Manufacturing PMIs suggested some pockets of demand, but the data is still volatile. We would not be surprised by further bouts of volatility ahead, as markets may soon try to test Mr. Powell's resolve to support Equity and Bond prices. Over the shorter term, a key danger is the possibility of 2000-like protracted legal battles for the White House and key seats in Congress after the election causing uncertainty for financial markets.

David Baker, CIO

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