Wealth Management
Weekly Market Update

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Market Update

A reduction in uncertainty in the United States helped US equities to their best week in three months, up +3.2% in Sterling terms, as investors begin to price in a Biden presidential victory. UK stocks looked past weaker than anticipated GDP growth to rally +2.0%. Investors appeared to welcome the targeted job support measures for local lockdowns. European stocks returned +2.5% in Sterling terms, where in local currency terms the German DAX index was the strongest performer of the major European indices. Emerging Markets extended their gains from last week, rising +3.8% in local currency terms, +3.1% after currency effects. This places Emerging Markets as the second best performing region for British investors last week, after the US. Japanese equities rebounded from their losses last week, rising +1.4% in Sterling terms, or +2.4% in Yen terms . In a reversal of the previous week, energy was the best performing sector. This was supported by a rise in oil prices, up +8.8% for the week. Consumer Staples was the worst performing sector. Government bond yields rose, the UK and US 10-year yields were up by 3.4 and 7.3 basis points respectively. The US 10-year is now at 0.77%, a four-month high. Gold rose +0.9% for the week to $1,930.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +2.0%	▲ +3.2%	▲ +2.5%	▲ +2.9%	▲ +3.1%	▲ +1.4%	▼ -0.3%	▲ +0.8%

all returns in GBP to Friday close

Macro News

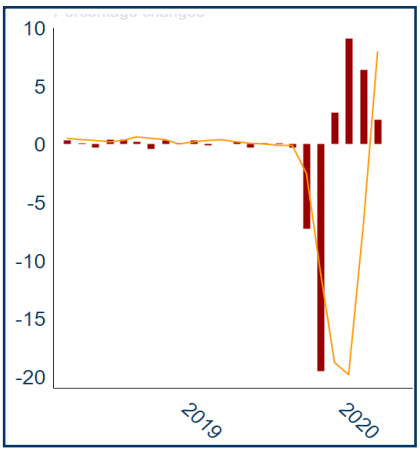
- British GDP grew by +8.0% percent in the three months to August 2020, recovering from five consecutive periods of three-month rolling GDP contraction, but missing market expectations of an +8.2% expansion. The services sector grew by +7.1%, production by +9.3% and construction by +18.5%, as lockdown measures continued to ease. On a monthly basis, the economy grew by +2.1%, the fourth consecutive monthly increase but remains -9.2% below its February 2020 peak.
- Industrial production in Germany dropped by -0.2% month-on-month in August 2020, missing market expectations of a +1.5% rise, following +1.4% gain a month earlier. This was the first fall in industrial output since April. Year-on-year, industrial production tumbled -9.6%.

The Week Ahead

- The University of Michigan consumer sentiment index is released Friday. The index reached 80.4 in September, the highest reading since March. Two issues represent the primary sources of uncertainty, and could cause volatile shifts in consumer confidence; when and how the election is decided; and the timeline and availability of a vaccine.

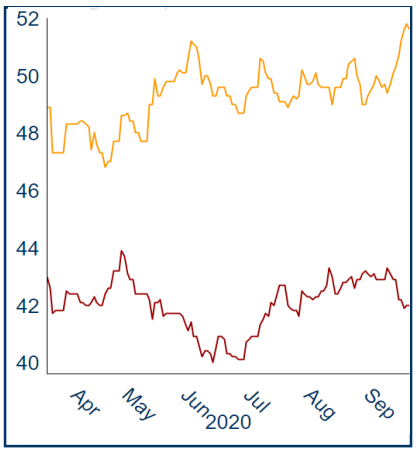
Week in Charts

Fig1: UK GDP



UK GDP grew +2.1% month-on-month in August 2020. On a three month basis, GDP grew +8.0%, recovering from five consecutive periods of three-month contraction.

Fig 2: US Election, national poling



Trump vs Biden: who is leading the 2020 election polls?

View From the Desk

Global stocks gained last week, with the S&P 500 nearing all-time highs again, while bond prices fell, despite a failure from the US Congress to reach a deal on Covid-19 stimulus. The reason for optimism might be rational. In the past two weeks, investors have begun to discount a wider Biden win than originally expected. This means a lower probability of an unclear result on Nov 4th and a higher probability of united government. With the House solidly near the hands of the Democratic Party, the rising chances of a 1980-style landslide victory, when Ronald Reagan beat incumbent Jimmy Carter by a 489-49 electoral college win, may well affect so-called "downballot" Senatorial candidates. This raises the possibility of a "Trifecta", i.e. both chambers of Congress and the White House being in the hands of one party. Like 2016, this is a very market-friendly outcome, an at least a 2-year window within which more meaningful legislation is usually passed. In that case, markets may discount a more generous stimulus package early in 2021.

Of course, all these outcomes are conditional and probabilistic. On election night anything might happen, largely depending on the "X" factor of voter turnout. Despite market optimism, we see that the bulk of investors remains reserved and do not bet heavily on the outcome, as such projections have been overturned in the recent past. This is also rational. Given the weak state of the US and global economy and the slower speed of policy transmission, a smaller stimulus package today might be preferable to a larger one in late January. Fact remains that the global economy is ailing and stock markets are cruising on a flood of monetary stimulus in anticipation of solid fiscal policy making in the near future. If the data sours before such a deal is reached for the world's largest consumer markets, then investors should brace for renewed volatility ahead.

David Baker, CIO

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