Wealth Management
Weekly Market Update

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Market Update

European equities sold-off as economic data begins to point towards a stalling recovery and coronavirus infection trends point towards tighter restrictions. European equities were down -1.4% in local currency terms, narrowing to a -1.2% loss in Sterling terms. UK stocks improved in the second half of the week, buoyed by increased employment support measures, but ultimately fell -1.0%. Emerging Market equities were once again positive, up +1.1% in local currency terms as the best performing region, however a strengthening Sterling eroded much of these gains and the asset class returned +0.3% in Sterling terms. Japanese equities returned +0.3% in Sterling terms, broadly in line with local currency returns due to minimal exchange rate movement. Telecoms and Financials were the two best performing sectors globally while IT and Consumer Staples lagged. Government bond yields rose, the UK and US 10-year yields were up by 9.8 and 9.7 basis points respectively. The US 10-year is now at 0.84%, a four-month high. Yields rose most sharply at the long end of the yield curve, which meant the yield curve steepened which is typically a positive sentiment for economic activity. Gold fell -0.7% for the week to $1,900.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▼-1.0%	▼-1.3%	▼-1.2%	▼-1.2%	▲+0.3%	▲+0.3%	▼-1.5%	▲+1.0%

all returns in GBP to Friday close

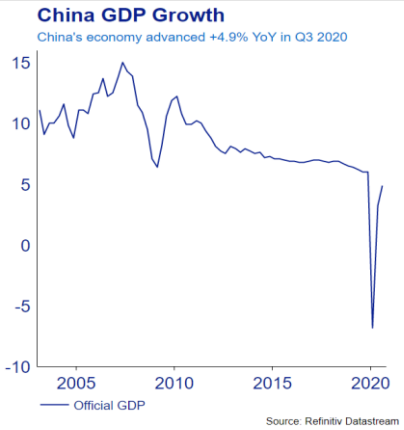
Macro News

- The Chinese economy advanced 4.9% year-on-year (YoY) in Q3 2020, faster than the 3.2% expansion in Q2 but below forecasts of 5.2%. Despite the lower than expected reading, there are signs the expansion is finally extending to consumption after a primarily state-backed industrial recovery. Retail sales rose 3.3% YoY in September, above forecasts and the highest reading so far this year. Industrial production rose 6.9%, also higher than expected and the biggest gain in 2020.
- Retail sales in the United Kingdom increased 1.5% percent month-on-month in September, beating forecasts of a 0.4% rise. It is the fifth consecutive month of rising retail sales and the third highest gain so far this year. Retail sales are now 5.5% higher compared with February's pre-pandemic level.

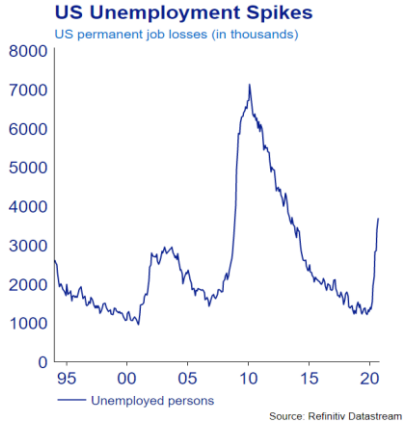
The Week Ahead

- US GDP data for Q3 2020 will be released on Thursday. The US economy shrank by an annualized 31.4% in Q2 2020, the largest contraction on record, pushing the economy into a recession. The pandemic has forced many businesses, including restaurants, cafes, stores and factories, to close and with people encouraged to stay at home, hurting consumer and business spending.

Week in Charts



China's economic growth continued to gain momentum in the third quarter, with its GDP expanding 4.9% from a year earlier in the July-September period, according to official Chinese data released.



The US unemployment rate has spiked; whilst many of those counted as unemployed are on temporary lay-off, the number of people who have lost their job permanently has started to rise sharply.

View From the Desk

Markets have accepted that the higher probability event is a Biden Presidency. In the US, 59 million votes have been cast a full week and a half before election day. Donald Trump became President with 62 million votes in total. This, along with the very stable favourability ratings for the incumbent, suggests that the electorate has more or less made up its mind. Like 2016, it is now a question of how small margins swing in key battleground states, but polls suggest a likelihood that in January the Democrats will be in control of the White House and the House of Representatives. For all the commotion, investors are focusing less on the Presidential race and more on the Senate, where the Democrats still have an advantage, albeit a less significant one. Control of all three (Presidency-Senate-House) is the key to unlocking meaningful legislation which could change to status quo for markets. For Mr. Obama's first term it meant Obamacare. For Mr. Trump's first term it meant the biggest tax overhaul in the US in 35 years. So the question really, is not who controls the White House, but if any one party can control all three executive and legislative branches. And to that end, which stimulus package will be passed and by when.

At the same time, long term investors are more worried about renewed lockdowns in Europe. Lockdowns remind portfolio managers that economic and investment fundamentals remain at the mercy of Covid-19. Complete lockdowns will have a devastating effect on private consumption, more than 50%-60% of GDP for developed countries, and could hamstring the recovery. Prolonged crises in the real economy have a habit of exposing systemic weaknesses, which can then spill-over to a financial economy which has learnt to be reliant on artificial stimulus. This could challenge authorities to offer even larger fiscal and monetary packages to maintain stability, while still risking the balance of the global financial ecosystem.

David Baker, CIO

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