Wealth Management
Weekly Market Update

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Market Update

Global equities rallied strongly last week on news that early data shows Pfizer's Covid-19 vaccine, one of many in development, is effective in 90% of cases. Equities rallied sharply in the first half of the week before ceding some of their gains later on as attention turned back to the near-term, where Covid-19 cases are reaching record daily levels in many major regions. Areas most impacted by Covid-19 fared best, with the UK and Spain doing particularly well. UK equities were up +7.0% for the week and European equities were up +3.8% in Sterling terms, with returns slightly dampened by Sterling strength. Globally the best performing sectors were Energy and Financials which are cyclical in nature. Financials benefited from steepening yield curves while increased expectations of energy demand next year boosted Energy stocks. Yields rose sharply in the early part of the week before giving up about half the rise; the UK 10 year rose to 0.338% and its US counterpart to 0.896%. Oil prices rose +11.0% to $41 a barrel. Gold fell -3.4% to $1,894 per Troy ounce.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +7.0%	▲ +2.0%	▲ +3.8%	▲ +2.2%	▲ +0.8%	▲ +1.1%	▼ -0.7%	▲ +0.3%

all returns in GBP to Friday close

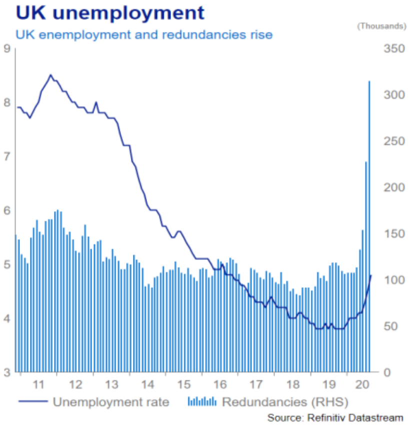
Macro News

- Leaders from 15 Asia-Pacific nations sealed one of the biggest trade deals in history, seeking to reduce barriers to trade in Asia, covering a third of the world's population and economic output. Economists said the deal, the first trade agreement bringing together China, Japan and South Korea, could add almost $200bn annually to the global economy by 2030. The deal will also further diminish US influence in the region after President Donald Trump withdrew from the Trans-Pacific Partnership, another large regional trading pact.
- UK GDP shrank by -9.6% year-on-year in Q3 2020, following a record contraction of -21.5% in the previous three-month period and compared with market expectations of a -9.4% fall. Despite the headline number the economy started to recover as restrictions on movement eased across June, July, August and September. Household consumption dropped -12.7% vs -26.2% in Q2.

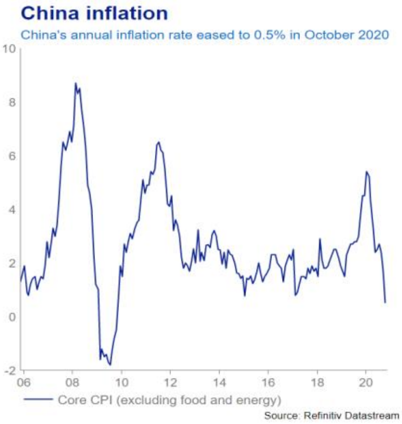
The Week Ahead

- UK inflation for October 2020 will be released this Wednesday. Inflation increased to 0.5% in September from a near five year low of 0.2% in August. The largest upward contribution came from cost of recreation and culture, transport and restaurants and hotels after the end of the Eat Out to Help Out scheme.

Week in Charts



The unemployment rate in the UK increased to 4.8% in the three months to September, from 4.5% previously. It is the highest jobless rate since the last quarter of 2016. July to September 2020 also showed a record number of redundancies (up by 181,000 to 314,000), while the employment rate continued to fall to 75.3%.



China's annual inflation rate eased to 0.5% in October 2020, the lowest since October 2009 and below market expectations of 0.8%. There was a sharp slowdown in food prices, with pork prices falling for the first time in over one and half years. On a monthly basis, consumer prices unexpectedly fell by 0.3%, the first drop in four months.

View From the Desk

The pandemic has so dominated our personal lives, in fact more so than the actual course of risk assets, that anything which takes the focus off the issue, be it sensational elections in the US or staff reshuffling in Downing Street, is treated as a welcome break, especially as new cases rise and the mortality curve may well follow. However, the story for investors is the global second wave of the pandemic. Despite some good R&D news, investors can ill-afford to ignore the inevitable but not entirely predictable time lapse between now and the point in the future when Covid-19 will be effectively behind us. In that time period, the stress on the economy might become extreme. The fact is of course that successful vaccination trials suggest that there's light at the end of the tunnel, encouraging more fiscal and monetary support by policy makers to stave off another protracted bear market and keeping portfolio managers upbeat. However, it is equally fact that the economic repercussions of the pandemic, ranging from high unemployment to financial system stress and a very large debt overhang, will likely be with us even after a vaccine is widely distributed. By throwing all they have to alleviate pain now, economic systems, based on the allocation of finite resources, will be very challenged to effectively deliver growth in the years after the pandemic. The consequences on the projected cash flows of firms, small or large, are broadly unknown, and thus investment managers should not relax despite the good vaccine news or the very wide policy support.

David Baker, CIO

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