Wealth Management
Weekly Market Update

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Market Update

Once again vaccine optimism supported global equity markets; this time it was the turn of the AstraZeneca vaccine, which can be more readily stored and transported. Global equities rose +2.1% for the week in Sterling terms. Financials and Energy were the two best performing sectors, as both sectors would benefit greatly from a sooner than anticipated return to normality. UK equities were up +0.3% for the week as concerns rise about the plausibility of finalising a Brexit deal before year end. US equities rallied +2.0% in Sterling terms on reports the President-elect plans to appointment Janet Yellen to Treasury Secretary. Yields remained relatively unchanged; the UK 10 year fell -1.8 bps to 0.284% and its US counterpart rose +1.3 bps to 0.837%. Oil prices rose +7.1% to $45.5 a barrel on the positive vaccine news, as a return to normality would likely see energy demand rise in 2021. Gold fell -4.7% to $1,788 per Troy ounce.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +0.3%	▲ +2.0%	▲ +1.9%	▲ +2.1%	▲ +1.5%	▲ +2.9%	▲ +0.5%	▲ +0.3%

all returns in GBP to Friday close

Macro News

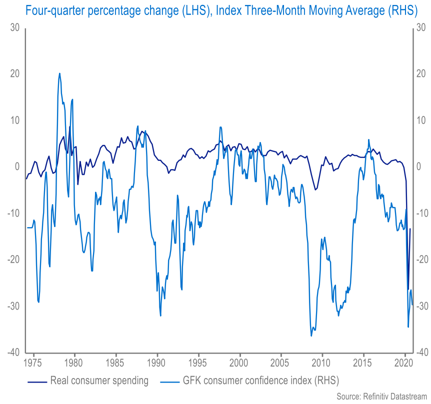
- In the UK Spending Review, Rishi Sunak, the Chancellor of the Exchequer warned that there will be long-term scarring in the economy until around 2025 as a result of the pandemic. The budget deficit is forecast to be 19% of GDP this year, the highest level ever in peacetime. It came as the Chancellor only raised public sector wages for those below the national median wage of £24,000.
- US Initial Jobless claims rose unexpectedly in the US on Wednesday to 778,000, up from 742,000 the week before. Economists had expected a marginal fall in the number of new claims so the rise caught markets by surprise. Pre-pandemic the number of initial claims was in the region of 200,000. Whilst it has fallen from the peak in March, there is clearly continued slack in the US labour market.

The Week Ahead

- In a relatively quiet week for economic data, investors will look to the UK where Michel Barnier arrived last week for a further round of face-to-face talks in an attempt to push through a deal before the December deadline. There remains serious divergence between the two camps on the topics of fishing, competition law and the enforcement of any deal.

Week in Charts

UK consumer spending and confidence
Four-quarter percentage change (LHS), Index Three-Month Moving Average (RHS)



British consumer confidence fell in November as England joined Wales and Northern Ireland in total national lockdown. All but essential retailers were closed and this has translated to a marked tick downward in consumer confidence.

S&P 500 Top 5 companies by market cap
Per cent of total S&P 500 market cap

There is some evidence of a rotation away from 'big tech'. On the vaccine news, investors have rotated towards the more challenged areas of equity markets and this has helped poorer performing companies to narrow the performance gap somewhat.

View From the Desk

The US electoral news cycle is winding down (at least until the all-important Georgia Senate elections on 5 January), and earnings season for the S&P 500 is over. The US central bank has signalled it is generally comfortable with current liquidity levels, while the Bank of England and the ECB are getting ready to further ramp up stimulus if needed.

With a dearth of catalysts and policy/virus risks mostly to the upside, this is the week where investment markets might put the spotlight on Brexit. With a few weeks to go, time to implement a change in the status quo, which at this moment is a cliff-edge Brexit at the end of the year, is quickly ending. Last week, BoE governor Andrew Bailey warned that a no-deal Brexit could have a negative economic impact the size of that caused by Covid-19. Considering that the UK government has had to borrow at record amounts already to mitigate the damage of the Covid crisis, more debt issuance to stabilise a possibly weak Brexit economy could have an adverse impact on credit ratings, the currency and overall UK risk assets. On the other hand, a last-minute basic deal and the promise of further negotiations down the road could fuel a rebound in relatively under-priced UK portfolio holdings.

The politics of the matter are delicate and the pendulum might swing in either direction. Thus, for our portfolios, we continue to exercise caution and remain neutral on UK risk assets and the currency.

David Baker, CIO

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