02 MARCH 2020

Close Brothers Asset Management

Weekly Update
The impact of isolation

EARNINGS LEARNINGS
Investors estimate the impact of Covid-19

ONLY WORDS?
Central bankers are stepping in

I'M WALKING AWAY
UK presses EU for progress by June

JUST THE TWO OF US?
The Democratic race narrows

A GOOD WEEK FOR

- Government bonds, driven higher by cautious investors' expectations of a monetary response to Covid-19

A BAD WEEK FOR

- Equities, led lower by US, European and UK markets as the virus spread
- Sterling, which broadly depreciated for a second week

ECONOMIC DATA

China's Purchasing Manager's Index (PMI) survey data confirmed businesses have been significantly disrupted by the spreads of Covid-19 in February. The composite measure reached a record low of 28.9 (below 50 indicates contracting activity). China's Caixin survey, which focusses on larger businesses, was also weak. So far, it is estimated that only 60% of workers are able to work routinely, with fuel consumption and traffic also lower than normal. Data elsewhere was also weak, but not dismal, with Japanese and European manufacturing surveys both closer to 50. Investors will watch keenly for evidence of a resumption of normal activity in China, as well as consequential data elsewhere.

EARNINGS

Covid-19 is taking its toll on corporate earnings, with forecasts broadly revised lower last week. Earnings have been hardest hit in Asia and emerging markets, with the US and Europe more robust. Weaker earnings reduce global growth expectations, weighing on cyclical sectors such as banking. Weaker oil prices hit the energy sector, due to lower demand expectations. As a sector with international and often complex supply chains, technology hardware manufacturers have also suffered from disruptions and factory closures. Earnings may well suffer in Q1 of 2020, but should recover if disruption fades and businesses adapt.

MONETARY POLICY

Central bankers sought to bolster confidence over the weekend, by committing to support the economy. Fed chair Jerome Powell raised the possibility of an interest rate cut at the March meeting, pledging to "act as appropriate". Bank of Japan Governor Kuroda committed to "[striving] to provide ample liquidity and ensure stability in financial markets through appropriate market operations and asset purchases." In the UK, the Bank of England also confirmed efforts to "protect financial and monetary stability". While coordinated monetary easing will no doubt be welcome, investors may also be hoping for a fiscal response from governments.

BREXIT

The UK and the EU began formalising negotiating mandates for the future relationship after Brexit. The UK is seeking a relationship founded on "friendly cooperation between sovereign equals" but maintaining "legal autonomy", with a "comprehensive free-trade agreement" complemented by supplementary arrangements on fishing, criminal judiciary, transport, energy, and so on. The rejection of the EU's say in UK laws, and of obligations to abide by EU laws, is likely to make reaching an agreement difficult, a problem compounded by the UK's decision to walk away from negotiations if insufficient progress has been made by June. We expect progress to be opaque until the summer. Deteriorating relations may risk a dip in business and investor confidence in the second half of the year.

US POLITICS

The race to become the Democratic nominee in November's US election is narrowing. Pete Buttigieg, who had been in third place, withdrew before "Super Tuesday" when the greatest number of US states hold primary elections and caucuses. Left-wing candidate Bernie Sanders is ahead, with 58 delegate nominations, followed by centrist contender Joe Biden with 50. Buttigieg's decision may help Biden, though other prominent candidates, including Michael Bloomberg and Elizabeth Warren, could still catch him. A choice between Sanders and Donald Trump would likely polarise debate further and heighten volatility. Trump's standing may be impacted by his handling of Covid-19.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.
UK	-10.7%			-9.1%			-12.1%			-3.5%		
US	-10.0%	-11.5%	1.5%	-5.1%	-8.2%	3.1%	-4.4%	-8.1%	3.6%	12.0%	7.7%	4.3%
Europe	-9.1%	-11.7%	2.7%	-5.1%	-7.5%	2.4%	-6.6%	-8.3%	1.7%	6.1%	5.6%	0.5%
Japan	-4.7%	-9.5%	4.8%	-6.0%	-9.6%	3.5%	-6.9%	-11.0%	4.2%	5.1%	-2.1%	7.1%
Asia ex Japan	-5.0%	-6.0%	1.0%	-1.0%	-3.0%	2.0%	-4.1%	-5.4%	1.2%	4.1%	2.6%	1.5%
EM	-5.7%	-6.5%	0.8%	-2.0%	-3.8%	1.8%	-6.1%	-7.0%	0.9%	2.0%	1.3%	0.7%

FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Corporate and Government Bonds				
UK Gov	0.9%	1.3%	5.2%	12.6%
US Gov	2.2%	2.7%	5.4%	12.5%
Europe Gov	1.0%	-0.7%	0.9%	5.8%
UK Index-Linked	-0.2%	1.9%	6.2%	13.3%
UK Corporate	-0.9%	-0.7%	2.4%	11.6%
UK High Yield	-1.6%	-1.2%	-0.4%	9.1%
Currencies – Spot				
USD – GBP	1.1%	3.0%	3.4%	3.5%
EUR – GBP	2.8%	2.4%	1.7%	0.3%
JPY – GBP	4.4%	3.3%	4.0%	6.7%

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.39%
10 Year Treasuries	1.09%
10 Year Bunds	-0.63%

COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	USD	USD	USD	USD
Energy				
Brent	-13.6%	-13.1%	-23.5%	-23.5%
Precious Metals				
Gold	-3.5%	-0.2%	4.5%	20.7%