

Weekly Update

Italiano-go

CAN'T CUT WONT CUT

OPEC+ can't agree production limits

THE FED DOUBLES

DOWN

The market is looking for more

THE US CONSUMER

VS. COVID-19

Can strength persist?

BIDEN HIS TIME

It was a Super Tuesday for Joe

A GOOD WEEK FOR

- Government bonds, driven higher still by cautious investors' expectations of a further monetary response to Covid-19
- Gold, which rallied c. +5% in USD terms

A BAD WEEK FOR

- Oil prices, which fell -8% in USD terms
- The US dollar, responding to the Fed's sudden interest rate cut

COVID-19

As the Covid-19 outbreak evolves, European governments have intensified measures designed to minimise the spread of the virus. Over the weekend, Italy announced quarantine measures, later extending the lockdown to the entire country. No travel is permitted other than for work or medical emergencies. No public gatherings are permitted and sports venues, schools and universities are closed. Measures are expected to stay in place until April 3rd. If the measures can avoid new cases occurring at the same rate, this will relieve some of the pressure on Italy's stretched health service. The economic impact of these measures is likely to be pronounced, and significant fiscal stimulus will be necessary to support growth, which may challenge Italy's debt sustainability. Meanwhile, new incidents in China are falling, and c. 70% of workers have returned to work following the extended Lunar New Year holiday.

OIL

Oil prices have fallen in recent weeks in anticipation of weak Chinese demand, due to Covid-19. The situation was exacerbated when Friday's OPEC+ meeting failed to reach agreement on a production cut to support prices. Disagreement between Russia and Saudi Arabia has resulted in Saudi Arabia pledging to increase oil production, thus driving oil prices lower still. While low oil prices benefit consumers and oil-importing economies, they weigh on the profitability of oil companies and economies where a large share of government revenue is oil dependant, presenting a potential source of political uncertainty.

MONETARY POLICY

The US Federal Open Markets Committee elected to implement an off-cycle rate cut on Tuesday, lowering rates by 50 basis points, twice the usual increment of cuts. The unexpected move from the Fed caused the US dollar to decline, and bond yields to fall to fresh lows. Explaining the cut to 1-1.25%, Fed chair Jerome Powell suggested that "the virus and the measures that are being taken to contain it will surely weigh on economic activity, both here and abroad, for some time." Powell signalled that further cuts were possible and futures markets imply that investors expect interest rates to fall to close to zero. Investors will be hoping other central banks follow suit, as well as a decisive fiscal response from governments.

US ECONOMY

February US labour market data was stronger than expected, with the unemployment rate falling to 3.5% coupled with a surge in weekly hours worked. However, wage growth decelerated modestly to 3% year on year. The data reflects the period before Covid-19 concerns intensified, and the nascent improvement in activity that followed the US-China trade truce. Early data, such as cinema box office receipts, suggest a modest negative impact on consumption behaviour in the US. If state governments implement social distancing measures, the impact may be more severe.

US POLITICS

The race to become the Democratic nominee in November's US election narrowed significantly last week, with Joe Biden and Bernie Sanders as front-runners. Biden emerged from "Super Tuesday", when the largest number of US states hold primary elections and caucuses, with the most delegate nominations. He is currently 96 votes ahead of left-wing candidate Sanders. While Biden is seen as a very business-friendly candidate, a choice between Sanders and Donald Trump would likely polarise debate further and heighten volatility.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.	GBP	Loc.	Rel.
UK	-1.6%			-1.6%			-13.5%			-6.7%		
US	-1.3%	0.6%	-1.9%	-1.3%	0.6%	-1.9%	-5.7%	-7.5%	1.8%	10.2%	8.9%	1.4%
Europe	-1.3%	-2.1%	0.8%	-1.3%	-2.1%	0.8%	-7.8%	-10.3%	2.4%	3.9%	2.7%	1.3%
Japan	-1.9%	-2.4%	0.5%	-1.9%	-2.4%	0.5%	-8.7%	-13.2%	4.5%	2.1%	-4.9%	7.0%
Asia ex Japan	-0.8%	0.3%	-1.1%	-0.8%	0.3%	-1.1%	-4.9%	-5.1%	0.2%	1.6%	1.8%	-0.2%
EM	-1.2%	0.5%	-1.7%	-1.2%	0.5%	-1.7%	-7.2%	-6.5%	-0.8%	-0.5%	1.2%	-1.6%

FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local

Corporate and Government Bonds

UK Gov	3.7%	3.7%	9.1%	15.4%
US Gov	3.0%	3.0%	8.5%	15.7%
Europe Gov	4.1%	4.1%	5.0%	10.3%
UK Index-Linked	3.0%	3.0%	9.3%	13.2%
UK Corporate	1.4%	1.4%	3.9%	12.3%
UK High Yield	-1.1%	-1.1%	-1.5%	7.5%

Currencies – Spot

USD – GBP	-1.8%	-1.8%	1.6%	0.9%
EUR – GBP	0.5%	0.5%	2.2%	0.7%
JPY – GBP	0.7%	0.7%	4.7%	7.0%

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.23%
10 Year Treasuries	0.39%
10 Year Bunds	-0.85%

COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	USD	USD	USD	USD
Energy				
Brent	-10.4%	-10.4%	-31.4%	-31.4%
Precious Metals				
Gold	5.6%	5.6%	10.3%	30.1%

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