17 MARCH 2020

Close Brothers Asset Management

Weekly Update
Supermarket Sweep

ONE FOR THE MONEY, TWO FOR THE SHOW
The Fed cuts rates further

EMPIRE STATE OF MIND
Films flop as the surveys drop

YOU CAN'T ALWAYS GET WHAT YOU WANT
But did the market get what it needed from the ECB?

A DOUBLE DOSE?
Will China feel the pain of weak global demand, just as it is recovering?

A GOOD WEEK FOR

- The US dollar, which strengthened around 3% over the week on a trade weighted basis.

A BAD WEEK FOR

- Oil prices, which fell a further -23% in USD terms
- Equities, especially in the UK, where stocks fell -17%

UK ECONOMY

New Chancellor of the Exchequer, Rishi Sunak, delivered his first budget last Wednesday, providing an additional GBP18bn in current spending - including GBP12bn for temporary, timely and targeted spending to offset the negative effects on the UK economy of measures necessary to limit the spread of the coronavirus. On the same day, the Bank of England also implemented an emergency rate cut, as well as measures designed to support the provision of liquidity within the UK economy, especially to small and medium enterprises. With the UK now in the "delay" phase of tackling the virus, economic activity is likely to slow notably, as consumers eschew entertainment venues, restaurants and bars. While food retailers have seen higher than usual footfall as shoppers stock up, airlines have suffered greatly due to an increasing number of travel bans.

US POLICY

Having cut interest rates by 0.5% last week, the US Federal Open Markets Committee elected to implement a further off-cycle rate cut on Sunday evening, lowering rates by a further 1% to close to zero. The Fed also introduced a number of measures designed to support liquidity provision by banks to households and businesses.
The measures came in response to deteriorating liquidity conditions, as the spread of the coronavirus stokes investor caution. On the fiscal side, the US Government agreed to defer tax payments and provide liquidity to firms affected by the coronavirus, as well as approving a USD8bn emergency spending bill to address the spread of the virus. While US markets held up reasonably well last week, investors signalled on Monday that they are looking for yet further fiscal support as the crisis intensifies.

US ECONOMY

Having shown signs of ongoing strength, the early impact of the coronavirus on the US began to show in the economic data this week, as a national state of emergency was called. Cinema box office takings fell by 45% on the week prior for example, as social distancing measures begin to come into effect. On Monday, the Empire State Manufacturing Survey also fell sharply, suggesting that manufacturing output is likely to fall in the first quarter, weighing on GDP growth. As the world's largest economy, a slowing in US economic activity will inevitably weigh on growth in other regions. The US administration's response has come under criticism from some quarters, with the limited availability of testing making it likely that harsh and prolonged social distancing measures will need to be put in place, which will potentially lead to a higher cost to growth.

EUROPEAN MONETARY POLICY

The European Central Bank also announced coronavirus related policy accommodation this week, but decided against a cut to the deposit rate, which is already in negative territory. The ECB opted instead to target liquidity measures, expanding its quantitative easing programme and offering cheap loans to commercial banks to encourage them to lend to small businesses. The package was not well received, with markets disappointed that rates were not cut. However, any further cut to rates would have been coupled with an increase in the tiering of capital, and the measures delivered are likely to more directly aid liquidity conditions. With Europe now the epicentre of the coronavirus crisis, we anticipate further targeted fiscal measures from national governments.

CHINESE ECONOMY

Chinese economic data points to a deeper than expected contraction in GDP growth, with retail sales declining by 21% and industrial production by 14%. Chinese coronavirus cases have fallen significantly and businesses are returning to work, which could help industry rebound. However, given the spread of the virus overseas, global demand is likely to be weak, which will weigh on any recovery in Chinese growth.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	-17.1%			-18.5%			-28.4%			-22.4%		
US	-4.3%	-9.1%	4.8%	-5.5%	-8.6%	3.1%	-9.7%	-15.9%	6.2%	4.3%	-2.4%	6.8%
Europe	-15.6%	-18.3%	2.6%	-16.7%	-20.0%	3.3%	-22.2%	-26.6%	4.4%	-12.1%	-16.1%	4.0%
Japan	-11.2%	-14.2%	3.0%	-12.9%	-16.3%	3.4%	-18.9%	-25.5%	6.7%	-8.2%	-17.3%	9.1%
Asia ex Japan	-6.3%	-9.5%	3.2%	-7.1%	-9.2%	2.2%	-10.9%	-14.1%	3.2%	-3.9%	-7.1%	3.2%
EM	-7.2%	-10.6%	3.4%	-8.3%	-10.1%	1.8%	-14.0%	-16.4%	2.5%	-7.0%	-9.3%	2.3%

FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Corporate and Government Bonds				
UK Gov	-2.7%	0.9%	6.2%	12.6%
US Gov	-1.8%	1.1%	6.5%	13.0%
Europe Gov	-5.3%	-1.5%	-0.6%	4.1%
UK Index-Linked	-5.9%	-3.1%	2.9%	6.3%
UK Corporate	-5.6%	-4.2%	-1.9%	5.8%
UK High Yield	-5.7%	-6.7%	-7.1%	1.2%
Currencies – Spot				
GBP – USD	6.3%	4.4%	8.0%	8.7%
GBP – EUR	4.5%	5.0%	6.8%	6.4%
GBP – JPY	3.7%	4.4%	8.6%	11.8%

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.41%
10 Year Treasuries	0.80%
10 Year Bunds	-0.58%

COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Energy				
Brent	-25.2%	-33.0%	-48.7%	-49.9%
Precious Metals				
Gold	-8.6%	-3.5%	0.8%	16.9%

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