

## Weekly Update

### The \$2 trillion dollar rescue

#### DOWN (GRADED) BUT NOT OUT

The UK's credit rating feels the effect of Covid-19

#### COMMUNITY CHEST

Pass Congress; collect USD1,200.

#### FEELING PEPP-Y

Bond purchases, fiscal support and more

#### FIRST IN, FIRST OUT

Is China in recovery?

#### A GOOD WEEK FOR

- Equities, which rallied across all markets in GBP terms, save for emerging markets
- Gold, which gained +8% in USD terms

#### A BAD WEEK FOR

- Oil prices, which fell a further -4% in USD terms
- The US dollar, weakening -4% versus a trade weighted basket

#### ECONOMIC DATA

Early glimpses were seen this week of the impact of measures designed to limit the contagion of the coronavirus on the global economy. Early Purchasing Managers' Index (PMI) surveys for March (which measure the prevailing direction of economic trends) indicated broad deterioration in business conditions across regions, with the services sector worst affected.

Employment data also painted a gloomy picture – US weekly unemployment claims surged, with over 3 million Americans registering. This level likely corresponds with an unemployment rate of around 5.5%, a jump of 2% on previous readings. In the UK, approximately 500,000 people applied for Universal Credit (UC) in the nine days to 26<sup>th</sup> March. If we assume all of these claimants are unemployed, this implies a UK unemployment rate of 5.3%. Higher unemployment is likely to negatively impact discretionary consumption spending in months to come.

#### UK POLICY

Chancellor of the Exchequer Rishi Sunak announced further income support measures this week, taking 2020 government stimulus to around 5% of GDP. 80% wage subsidies will now also be extended to the self-employed, based on an average of the past three years' earnings. If all eligible self-employed workers enter the scheme, it is likely to cost around GBP20bn.

Ratings agency Fitch downgraded the UK's credit rating on Friday, in anticipation of weaker GDP growth and "the size and the impact" of recent fiscal policy measures. The market response was relatively sanguine at this stage.

#### US POLICY

After much back and forth, Congress passed into law a stimulus package worth in the region of \$2 trillion. This includes USD350bn in grants to small businesses to use to pay workers, rent and utilities; a USD1,200 check for all middle- and lower-income Americans, with an additional USD500 for each child, and the extension of unemployment benefits. Such a large increase in outlays will cause government borrowing to rise, with the deficit likely to reach 12% of GDP in 2020. While this spending is significant, it is unlikely to fully offset the impact of the coronavirus on growth and further spending is being negotiated as we write.

#### EUROPEAN POLICY

Germany confirmed a EUR156bn supplementary budget package to fight Covid-19 last week. This consists of EUR123bn to help small businesses and support the healthcare system and EUR33bn in tax relief. A EUR600bn economic stabilisation fund was also announced, to be used to guarantee up to EUR400bn of corporate loans, take direct equity stakes in firms and fund the state-owned bank KfW. France, Italy and Spain also announced fiscal spending measures.

The ECB released further detail of its Pandemic Emergency Purchase Programme (PEPP), which will see the purchase of a minimum of EUR 750bn worth of bonds this year. Several European countries, including France, Italy and Spain, are pushing for the issuance of "coronabonds", shared debt instruments used to raise funding at the Eurozone level. Money raised would then be redistributed across member countries according to needs. This would mostly benefit peripheral countries with higher funding costs.

#### CHINA DATA

With a sharp decline in new domestic cases and social distancing measures being lifted, Chinese data has seen improvements across most domestic activity indicators for March. Coal consumption, an indicator of industrial activity, is now only 14% below the historical average and traffic indicators suggest a return to normal levels. However, given that demand beyond China remains weak as a result of lockdowns, we anticipate that Chinese industry may be slower to recover.

# Performance

## EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	6.2%			-15.9%			-26.1%			-20.4%		
US	3.5%	10.5%	-7.0%	-11.7%	-14.1%	2.4%	-15.7%	-21.1%	5.4%	-2.2%	-8.2%	6.0%
Europe	3.0%	5.7%	-2.7%	-13.0%	-16.1%	3.1%	-18.7%	-23.0%	4.3%	-8.0%	-12.4%	4.4%
Japan	9.8%	13.9%	-4.1%	-2.0%	-4.4%	2.4%	-8.7%	-15.0%	6.2%	0.6%	-7.4%	8.0%
Asia ex Japan	-1.6%	3.9%	-5.5%	-12.6%	-13.9%	1.3%	-16.2%	-18.6%	2.3%	-9.7%	-12.0%	2.3%
EM	-1.7%	4.5%	-6.2%	-13.7%	-13.9%	0.2%	-19.0%	-19.9%	0.9%	-11.8%	-12.8%	1.0%

## FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
<b>Corporate and Government Bonds</b>								
UK Gov	1.9%		2.5%		7.8%		11.4%	
US Gov	1.7%		3.1%		8.7%		13.6%	
Europe Gov	5.0%		-1.2%		-0.3%		3.3%	
UK Index-Linked	8.7%		-0.2%		5.9%		5.1%	
UK Corporate	1.9%		-7.9%		-5.6%		0.2%	
UK High Yield	0.4%		-13.4%		-13.8%		-6.5%	
<b>Currencies – Spot</b>								
GBP – USD	-6.6%		2.9%		6.4%		5.9%	
GBP – EUR	-2.9%		3.9%		5.7%		4.8%	
GBP – JPY	-4.1%		3.0%		7.1%		8.4%	

	YIELD	
	Local	
<b>Sovereign and Supranational Bonds</b>		
10 Year Gilts	0.27%	
10 Year Treasuries	0.65%	
10 Year Bunds	-0.54%	

## COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
<b>Energy</b>								
Brent	-7.6%		-50.7%		-62.2%		-63.2%	
<b>Precious Metals</b>								
Gold	8.6%		2.7%		7.3%		24.3%	

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