

Weekly Update

US GDP: Great Demand Problem

BETTER THINGS AHEAD?

The ECB offers more support as growth is weak

FAREWELL TO FOSSIL?

Firms see the end of oil hastening

RETURN OF THE TARIFFS?

Trump gets tough on trade, again

REMEMBER THE "B" WORD?

Brexit deadlines are approaching

A GOOD WEEK FOR

- Oil, which surged over +20% higher in USD terms.
- European and emerging market equities, which gained c. +3% in GBP terms.

A BAD WEEK FOR

- The US dollar, which weakened over -1%, weighing on the performance of US assets.
- Gold, which sold off -1.7% on better sentiment.

US ECONOMY

US GDP data last week revealed that the economy shrank by -1.2% in the first quarter of 2020. Given that activity was likely relatively normal until social distancing measures were introduced, it seems probable that growth may have dropped by c. 20% in March. Final consumption, the largest share of the economy, experienced a significant decline in the first quarter, along with fixed investment. Trade also collapsed, with a dramatic decline in imports boosting the GDP print, but signalling weak demand. The Fed kept monetary policy unchanged but did reiterate its commitment to supporting the economy. We would expect growth in the second quarter to reflect the impact of social restrictions more fully, though the US is taking steps to reopen its economy. With unemployment data this week expected to rise to c. 15%, the impact on the economy may endure past the end of the lockdown.

EUROPEAN CENTRAL BANK

Eurozone GDP growth was also weak in the first quarter, with the economy contracting by -3.8%. This weakness reflects both the fact that Eurozone growth was anaemic going into the coronavirus crisis and that countries there introduced social restrictions earlier. The European Central Bank did not make changes to its asset purchase programme, to the disappointment of investors, who had anticipated that sub-investment grade bonds may be included. However, the ECB did introduce enhancements to bank funding, which should increase liquidity provisions. With the European Commission due to present proposals to support the economy this week, policy makers will be watching to see if European leaders are able to agree a way forward.

OIL

Oil prices received a boost this week, as production cuts from OPEC+ (the Organization of Petroleum Exporting Countries and affiliated producers) came into effect, reducing output by 9.7 million barrels per day from May 1. Optimism also grew that lifting social distancing measures would help boost demand. This comes after the price of US WTI oil had last week turned negative due to a glut of supply and dwindling storage capacity. In a concerning move for income investors, Royal Dutch Shell cut its dividend for the first time since 1945, with CEO Ben van Beurden speculating that the recovery from the coronavirus crisis may accelerate the shift away from fossil fuels.

GEOPOLITICS

Tensions between the US and China intensified this week, with US President Donald Trump threatening to terminate the "phase one" trade deal agreed at Christmas if China fails to fulfil its promise to buy USD200 billion more in American goods and services. China's ability to make the purchases has likely been reduced by the economic impact of the coronavirus pandemic. The termination of the deal could see further tariffs introduced, hurting both Chinese and US economies. The health crisis has brought into focus the fragility of global supply chains, heavily reliant on China, which are designed for efficiency rather than resilience. Trump appears to be seizing this chance to relocate supply chains away from China, with the executive considering tax incentives and re-shoring subsidies to spur progress.

BREXIT?

Despite the disruption of the coronavirus crisis, the UK and Europe are well into the negotiating period for agreeing a future relationship once the UK leaves the EU. The EU council meeting, taking place in the middle of June, is the formal deadline by which the UK must request an extension to the transition period if it is felt more time is needed for negotiations. While it is thought that the coronavirus pandemic may provide a politically tolerable reason to request an extension, the government shows little sign of triggering one and progress on the negotiations has been limited. With the EU preoccupied with agreeing a coronavirus rescue package for member states, the clock is ticking.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	0.2%			-2.3%			-23.2%			-19.7%		
US	-1.6%	-0.1%	-1.5%	-2.3%	-2.8%	0.5%	-6.5%	-11.8%	5.3%	2.8%	-1.7%	4.5%
Europe	3.4%	3.0%	0.4%	0.9%	-0.1%	1.0%	-12.9%	-16.0%	3.1%	-7.0%	-9.0%	2.0%
Japan	-0.3%	0.6%	-1.0%	-1.8%	-2.4%	0.6%	-9.2%	-15.7%	6.5%	-1.1%	-9.1%	7.9%
Asia ex Japan	1.9%	2.7%	-0.8%	-0.9%	-1.2%	0.3%	-9.1%	-11.8%	2.7%	-6.0%	-8.2%	2.2%
EM	2.7%	3.5%	-0.8%	-0.3%	-0.5%	0.2%	-12.4%	-12.4%	0.0%	-8.9%	-8.2%	-0.7%

FIXED INTEREST AND CURRENCIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		

Corporate and Government Bonds

UK Gov	0.0%			-0.5%			9.6%			15.1%		
US Gov	-0.4%			-0.1%			9.2%			14.6%		
Europe Gov	2.7%			0.2%			-0.3%			4.1%		
UK Index-Linked	0.1%			-0.5%			6.2%			7.4%		
UK Corporate	0.8%			-0.2%			0.7%			6.6%		
UK High Yield	0.3%			0.0%			-9.6%			-3.9%		

Currencies – Spot

GBP – USD	-1.0%			0.8%			6.1%			4.5%		
GBP – EUR	0.3%			0.9%			3.8%			2.3%		
GBP – JPY	-0.5%			1.1%			7.8%			8.8%		

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.25%
10 Year Treasuries	0.62%
10 Year Bunds	-0.56%

COMMODITIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Energy												
Brent	23.3%			4.6%			-59.9%			-63.4%		
Precious Metals												
Gold	-1.7%			0.8%			12.1%			33.2%		

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