

Weekly Update

Heading for the exit

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Germany and the EU face off

DEBT ON THE RISE

The EU forecasts rising Debt-GDP ratios

SCENARI-OH-NO

The Bank of England gives a steer on growth

FROM 4% TO 14%

US unemployment surged higher

A GOOD WEEK FOR

- Oil, which surged a further +17% higher in USD terms.
- US and Japanese equities, which gained c. +4% and +3% respectively in GBP terms.

A BAD WEEK FOR

- Sterling, which fell c. -1% versus EUR and JPY.
- US and European government bonds, which sold off c. -0.5%.

SOCIAL DISTANCING

With daily cases decreasing in many regions, governments are easing social restrictions. In England rules were loosened to allow those that cannot work from home to return to work, and recreational travel to beauty spots. In Germany, shops and schools are reopening and inter-household meetings are now permitted. France's strict travel permit scheme has been relaxed, and all shops outside of Paris can re-open, along with nurseries and primary schools. Austria, one of the first European countries to relax lockdown measures, is now allowing hairdressers to re-open, with restaurants and leisure attractions to follow by the end of the month. In the US, more than half of states have eased social restrictions, encouraged by President Trump, though many states are failing to meet the President's guidelines for reopening safely.

EUROPEAN POLITICS

The German Supreme Court's review into the legality of European Central Bank (ECB) operations under German law did not find the Bank's purchases of government bonds to be contrary to rules on monetary financing. However, Judges agreed with euro-sceptics that the ECB needs to show that its stimulus policies were proportionate. The court has given the ECB three months to demonstrate this; failure to do so could lead to Germany's central bank refusing to participate in the implementation and execution of ECB decisions. While the decision is not directly related to the ECB's Covid-19 stimulus package, the implications are certainly relevant, and while the German court has no jurisdiction over the ECB, Germany is a powerful member of the bloc politically. As a result, the decision may limit the ECB's ability to expand the use of certain types of stimulus, putting ever greater pressure on European leaders to agree a fiscal solution.

EUROPEAN ECONOMY

Ahead of this week's Eurozone GDP print, the European Commission published its forecasts for 2020 & 2021. The Commission's economists expect the Eurozone to contract -7.7% in 2020 before making an incomplete recovery (+6.3%) in 2021. All EU economies are expected to contract, but some are likely to suffer more than others, with Greece, Spain and Italy expected to contract by close to -10% in 2020. Debt levels are also expected to surge higher. It is forecast that seven Eurozone economies will emerge with Debt-to-GDP ratios above 100% - with Greece's near 200% and Italy's rising to 159% from 135% - while the debt to GDP ratio for the Eurozone as a whole is also expected to rise above 100%. Higher debt-to-GDP-ratios could make the Eurozone economy more vulnerable to credit shocks in the future and may raise the cost of borrowing.

UK ECONOMY

Last Thursday the Bank of England's Monetary Policy Committee unanimously voted to keep rates unchanged, and voted 7-2 in favour of keeping the total bond purchase target unchanged at £645bn. Acknowledging that there are downside risks to the outlook for growth, Governor Andrew Bailey signalled that it may be necessary to do more to support the economy. The Bank published a central growth scenario, which sees the economy shrinking -14% in 2020, with unemployment rising to 8%, followed by a rebound of +15% in 2021. However, sustained social distancing may scar the economy in a more lasting way. Inflation is likely to collapse in coming months, suppressed by the fall in oil prices and a weak demand outlook.

US ECONOMY

Friday's US unemployment reading showed unemployment surging to 14.7% in April from 4.4% in March, modestly better than the market had expected. U-6 unemployment, a measure of workers who are unemployed, under-employed or "marginally attached" to the workforce, increased from 8.7% to 22.8%. Note that 78% of unemployed workers were on temporary layoff schemes, suggesting that unemployment may decline rapidly if the US economy can re-open swiftly. However, it is likely that not all of these jobs will be resumed once the Covid-19 lockdown is ended, and a weaker job market is likely to impact consumer confidence.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	3.1%			0.7%			-20.8%			-15.9%		
US	4.6%	3.9%	0.8%	2.2%	0.9%	1.3%	-2.2%	-8.4%	6.2%	8.5%	3.7%	4.9%
Europe	0.0%	0.5%	-0.6%	0.9%	0.4%	0.5%	-12.9%	-15.6%	2.6%	-5.1%	-6.5%	1.4%
Japan	3.2%	2.0%	1.2%	1.3%	-0.4%	1.8%	-6.3%	-14.1%	7.8%	3.3%	-4.6%	8.0%
Asia ex Japan	0.8%	-0.1%	0.9%	-0.2%	-1.3%	1.1%	-8.4%	-11.9%	3.5%	-3.3%	-6.0%	2.6%
EM	0.2%	-0.5%	0.7%	-0.1%	-1.0%	0.9%	-12.2%	-12.8%	0.6%	-6.8%	-6.3%	-0.4%

FIXED INTEREST AND CURRENCIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Corporate and Government Bonds												
UK Gov	0.6%			0.1%			10.3%			15.7%		
US Gov	-0.3%			-0.4%			8.8%			14.0%		
Europe Gov	-1.4%			-1.2%			-1.7%			2.9%		
UK Index-Linked	2.6%			2.1%			9.0%			9.7%		
UK Corporate	0.1%			-0.1%			0.8%			6.8%		
UK High Yield	0.1%			0.1%			-9.5%			-3.5%		
Currencies – Spot												
GBP – USD	0.7%			1.5%			6.9%			4.9%		
GBP – EUR	-0.5%			0.4%			3.3%			1.5%		
GBP – JPY	1.0%			2.1%			8.9%			8.2%		

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.23%
10 Year Treasuries	0.69%
10 Year Bunds	-0.53%

COMMODITIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Energy												
Brent	17.1%			22.6%			-53.1%			-56.0%		
Precious Metals												
Gold	0.1%			1.0%			12.2%			32.9%		

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