

Weekly Update

Fur-lough for longer

D.I.V.O.R.C.E

Brexit negotiations aren't going well

BREAKING CHINA?

Trump threatens to cut of Chinese relations

LEADING BY EXAMPLE

Saudi Arabia cuts production, in the hope others follow

CORONAVIRUS CORRIDORS

Leaders look to facilitate travel

A GOOD WEEK FOR

- Oil, which continued its rise and gained c. 5%, and Gold, which rose c. 2.5% (both in USD terms).
- Emerging market, Japanese and US equities, which all gained in GBP terms, helped by Sterling weakness.

A BAD WEEK FOR

- Sterling, which continued to fall, declining over 2% versus several major currencies.
- UK equities, which declined -2.5%, and European equities, which fell -1.3%.

UK ECONOMY

Official data showed that UK GDP declined in -2% in the first quarter, and -5.8% in March. While growth had been weak in January and February, with Brexit effects and a tough external environment, the introduction of social distancing measures caused activity to collapse in March. Many restrictions are likely to be in place throughout the second quarter and perhaps into the third, posing a downside risk to the Bank of England's recovery scenario and making further easing likely, as Bank representatives have indicated. The Treasury yesterday announced the extension of the Job Retention Scheme to October, with new provisions to facilitate a phased exit including a part-time return to work and cost-sharing with employers.

BREXIT

UK and EU negotiating teams met last week to thresh out the UK's future relationship with the EU. Despite the UK acknowledging the need for customs checks on goods crossing the Irish Sea, which signalled that compromise was possible, negotiators confirmed that scant progress had been made. Rhetoric between the two sides became more confrontational, with the UK accusing the EU of being 'ideological' and the EU labelling the UK's demands as 'not realistic'. Negotiators will reconvene on the 1st June, to hammer out issues such as the question of 'level playing field' regulations, common rules and standards, arbitration and, of course, fishing rights. Combined with weak GDP data, the negative tone of the talks weighed on sterling.

GEOPOLITICS

US-China relations deteriorated further last week, with President Trump speculating that he may "cut off the whole relationship" with China, in response to China's "mishandling of the coronavirus". Republican lawmakers are also working on incentives to encourage US businesses to move offices and supply-chains back to the US. These include subsidies, tax breaks and a \$25 billion 'reshoring fund'. These measures are a response to the perceived security risk of the U.S' reliance on China for medical and food supplies, highlighted by the pandemic, as well as a bid to make progress on Trump's intention to enhance U.S. manufacturing ahead of the US election in November.

OIL

Last week Saudi Arabia announced plans to unilaterally cut its crude oil output by a further one million barrels per day from June. Weak oil markets are undermining Saudi Arabia's financial stability, and the production cut is a bid to stem oversupply and shore up prices for a key export. The kingdom has implemented a number of austerity measures since oil prices tumbled, given the importance of this source of revenue. Saudi Arabia's proactive cut encouraged Kuwait and the United Arab Emirates to follow suit, in addition to reductions already agreed at the last meeting of the Organisation of Petroleum Exporting Countries and their allies. This appears to signal an end to Saudi Arabia's effort to push higher-cost producers out of the market.

SOCIAL DISTANCING

With the tourism industry worth around 10% of the global economy, policy makers are eager to facilitate travel. This is pressing in Europe, where many of the countries hardest hit by the coronavirus are also those most exposed to tourism. Leaders are exploring the possibility of "tourist corridors": travel zones linking places where the coronavirus is under control. The World Economic Forum reports that Estonia, Latvia and Lithuania are creating a "travel bubble", allowing citizens to travel freely but requiring a two week quarantine for anyone entering from outside. New Zealand and Australia are also establishing a "trans-Tasman" bubble while Germany, Austria, Switzerland and France have started easing border restrictions, with the aim of lifting them entirely by June 15, in time for summer vacations. Shared and accepted health codes look to be key to the future of travel.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	-2.2%			-1.5%			-22.6%			-18.2%		
US	0.2%	-2.2%	2.4%	2.5%	-1.3%	3.8%	-2.0%	-10.4%	8.5%	8.6%	2.3%	6.3%
Europe	-1.5%	-3.5%	2.0%	-0.6%	-3.1%	2.5%	-14.2%	-18.6%	4.3%	-6.8%	-8.9%	2.2%
Japan	1.2%	-0.5%	1.7%	2.5%	-0.9%	3.4%	-5.2%	-14.5%	9.3%	4.5%	-3.5%	8.0%
Asia ex Japan	1.5%	-0.6%	2.0%	1.3%	-1.9%	3.1%	-7.1%	-12.4%	5.3%	-0.2%	-4.4%	4.1%
EM	1.4%	-0.8%	2.2%	1.2%	-1.9%	3.1%	-11.0%	-13.6%	2.6%	-3.3%	-4.4%	1.0%

FIXED INTEREST AND CURRENCIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Corporate and Government Bonds												
UK Gov	-0.7%			-0.6%			9.6%			14.2%		
US Gov	0.4%			0.0%			9.3%			13.8%		
Europe Gov	-1.1%			-2.3%			-2.8%			1.8%		
UK Index-Linked	-0.1%			1.9%			8.9%			9.9%		
UK Corporate	-0.8%			-1.0%			-0.1%			5.7%		
UK High Yield	-0.1%			-0.1%			-9.6%			-3.6%		
Currencies – Spot												
GBP – USD	2.5%			4.1%			9.5%			6.1%		
GBP – EUR	2.3%			2.7%			5.6%			2.5%		
GBP – JPY	2.1%			4.2%			11.1%			8.7%		

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.23%
10 Year Treasuries	0.65%
10 Year Bunds	-0.52%

COMMODITIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Energy												
Brent	4.9%			28.6%			-50.8%			-54.7%		
Precious Metals												
Gold	2.4%			3.4%			14.9%			34.5%		

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