

Weekly Update

It pays to borrow

LESS THAN NOTHING

The UK is paid to borrow on negative yielding debt

ABANDON TARGET!

China drops growth targets but takes aim at Hong Kong

HYDRO-WHAT?

Medicinal advice Trumps the Fed's news

DRUG RACE

Markets respond to vaccination hype

A GOOD WEEK FOR

- Oil, which surged 8% higher in USD terms.
- European and UK equities, which rallied 4% and 3.5% respectively in GBP terms.

A BAD WEEK FOR

- Gold, which declined modestly (-0.1%)
- The US dollar, which fell -0.5% on a trade weighted basis.

UK

The UK Government borrowed £62bn in April to respond to the coronavirus, the highest monthly figure on record and larger than the borrowing forecast for the whole year in the March Budget. This coincides with the UK selling its first ever negative-yielding bonds: £3.8bn of three-year gilts yielding -0.003%. Meanwhile, Consumer Prices Index (CPI) inflation fell to 0.8% from 1.5% in March, suggesting coronavirus may be a disinflationary force in the short-term. This is no surprise given the demand slump, with unemployment benefit claimants in Britain soaring by a record 856,500 to 2.1 million, even though the government's emergency Job Retention Scheme now pays 80% of the wages of 8 million employees put on temporary leave, who are not counted as unemployed.

CHINA

Premier Li Keqiang announced that China's 2020 growth target would be abandoned at the National People's Congress. The gathering also heard that China would spend trillions of yuan, through both fiscal and monetary easing, and run a budget deficit of around -3.5%, to stimulate an economy enfeebled by the coronavirus. GDP shrank by -6.8% in Q1. Meanwhile, Hong Kong's Hang Seng stock market tumbled by more than 5% last Friday after China moved to ban "treason, secession, sedition and subversion", in reference to last year's sustained unrest. Pro-democracy supporters have been outraged that Hong Kong lawmakers intend to support the move. President Trump, who has spoken irascibly on US-Sino relations of late, promised a "very strong" response if the law passes. Hong Kong's near-autonomy has been enshrined in law since 1997.

US

President Trump targeted the World Health Organisation with similar vitriol by threatening to permanently withdraw US funding unless the WHO commits to 'substantive improvements' within 30 days. The US administration has been critical of the WHO's handling of the COVID-19 pandemic, condemning its perceived lack of independence as being 'China-centric'. Trump's comments, reflecting a wider disdain of global institutions and another front in US-Sino geopolitical rivalry, were cast awkwardly alongside his extolling the virtues of taking anti-malarial drug Hydroxychloroquine to prevent contracting coronavirus. Meanwhile, The US Federal Reserve highlighted that the US economy could shrink by around 30% in the second quarter with the unemployment rate jumping by over 20%. Despite these gloomy forecasts, the number of Americans filling for unemployment benefits eased slightly to 2.44 million, the lowest level of initial jobless claims since the coronavirus crisis began more than two months ago.

VACCINES

Global markets initially reacted positively to news that US bio-tech company Moderna was raising \$1.3bn to fund the manufacturing of its experimental coronavirus vaccine. However, confidence waned as the drug's effectiveness is still unproven, showing that news on developing viable testing, treatment and vaccines continues to move markets regardless of their efficacy. Over 100 vaccines are under development with 8 currently in clinical trials – one has started recruiting for advanced human trials with hopes that doses could be available as early as September. As solutions near regulatory approval, reaching global scale in production and distribution will be key, with doubtless moral hazard about which countries will receive vaccinations first. Manufacturing and administering drugs prematurely without the necessary safety checks could have profoundly negative consequences to not only human health, but also the global economy.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	3.3%			1.7%			-20.0%			-16.2%		
US	2.9%	3.4%	-0.4%	5.5%	2.0%	3.5%	0.9%	-7.4%	8.3%	9.9%	5.5%	4.4%
Europe	4.0%	3.7%	0.3%	3.4%	0.5%	2.9%	-10.7%	-15.5%	4.8%	-4.8%	-6.3%	1.5%
Japan	0.9%	1.5%	-0.6%	3.5%	0.6%	2.9%	-4.3%	-13.2%	8.9%	4.6%	-2.2%	6.8%
Asia ex Japan	-1.2%	-0.9%	-0.3%	0.0%	-2.8%	2.8%	-8.2%	-13.2%	5.0%	-1.8%	-4.5%	2.7%
EM	0.1%	0.0%	0.1%	1.3%	-1.8%	3.1%	-10.9%	-13.5%	2.6%	-3.0%	-2.9%	-0.1%

FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Corporate and Government Bonds								
UK Gov	0.6%		0.0%		10.2%		14.4%	
US Gov	-0.2%		-0.2%		9.0%		13.6%	
Europe Gov	1.1%		-1.2%		-1.7%		3.4%	
UK Index-Linked	1.1%		3.1%		10.1%		9.9%	
UK Corporate	1.0%		0.0%		0.9%		6.8%	
UK High Yield	0.7%		0.7%		-9.0%		-3.1%	
Currencies – Spot								
GBP – USD	-0.5%		3.5%		9.0%		4.1%	
GBP – EUR	0.3%		3.0%		5.9%		1.7%	
GBP – JPY	-1.0%		3.1%		10.0%		6.7%	

	YIELD	
	Local	
Sovereign and Supranational Bonds		
10 Year Gilts	0.19%	
10 Year Treasuries	0.70%	
10 Year Bunds	-0.45%	

COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Energy								
Brent	8.1%		39.0%		-46.8%		-50.5%	
Precious Metals								
Gold	-0.5%		2.9%		14.3%		36.2%	

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