

Weekly Update

When 2m becomes 1

TRADE TRIANGLE

Is the EU opening a door to China as the US closes one?

STRESSED OUT

US stress tests suggest bank resilience with strings attached

AMERICA-NO ENTRY

What will tighter immigration mean for businesses?

SUBDUED SURVEY STRENGTH

Why aren't the PMI surveys higher?

A GOOD WEEK FOR

- Government bonds, which rallied on weaker risk appetite, with gilts gaining +0.9%.
- Gold, which also benefitted from weaker sentiment, gaining +0.7%.

A BAD WEEK FOR

- Equities, which fell broadly in GBP terms. UK and US equities both declined -2%.
- Oil prices, which slid -3%.

UK ECONOMY

Last week the UK government advised that large segments of the hospitality sector would be able to reopen in England from 4th of July and that social distancing standards would be changed from two metres to one metre, with the wider use of face coverings. The change facilitates the reopening of restaurants, bars and tourist destinations, where c. 8% of the UK workforce is employed. Hairdressers and barbers will also reopen. Businesses will be required to contribute to the pay of furloughed workers from August, compelling employers to make decisions about the viability of businesses with social distancing in place, and future labour requirements. While the Job Retention Scheme has kept UK unemployment relatively contained so far, there is a risk that claims may rise into the autumn. Meanwhile, businesses wait further government measures designed to boost demand, such as a possible VAT cut.

GLOBAL GEOPOLITICS

EU and Chinese officials last week took part in a virtual trade summit, attended by Chinese premier Xi Jinping. This is the first time that the EU's institutional leaders have met with China's leaders and indicates a pivot on the part of the EU to a policy of greater engagement with China, albeit with some reserve. China is now importing more from the EU than anywhere else in the world, a by-product of US trade substitution. Key topics for discussion included access to the Chinese market for European firms, Chinese environmental standards, human rights, and data and technology policies. The summit takes place at a time when the US administration has signalled a desire to take an increasingly hawkish policy on global trade with both China and the EU.

US BANK REGULATION

The Federal Reserve's stress test of US banks indicated that the banking system overall was sound. While most banks have sufficient capital to withstand unexpected shocks such as the coronavirus pandemic, some banks were at risk in an extreme scenario. The regulator will require large banks to suspend share buybacks and cap dividend payments at the current level for the third quarter of 2020, and also introduced an earnings-based formula for the calculation of permitted dividends, with a view to bolstering bank capitalisation. While the restrictions will be unwelcome to investors, they do not come as a surprise - large U.S. banks halted share buyback programs in March 2020. The Federal Reserve also announced some modifications to the Volcker rule, including the easing of capital requirements associated with derivatives. It is clearly good news for investors that the US banking system is robust, although regulatory intervention may be an unwelcome feature for some time to come.

US ECONOMIC POLICY

On Monday, President Donald Trump extended limits on immigration first announced in April to cover a broader range of workers. The government stated that the measures were designed to limit the spread of the coronavirus pandemic and to protect American workers from wage competition. The policy now covers temporary work visas as well as those seeking permanent residency and, though the initial ban was to last for only 60 days, some in the current administration would support an indefinite extension. With the US unemployment rate above 13% measures perceived to bolster employment opportunities may play favourably with voters, but meaningful changes to the labour market risk disruption for businesses.

GLOBAL ECONOMY

Industrial survey data this week signalled that business conditions were improving in developed markets as social distancing measures are further rolled back. Purchasing Manager Index survey data, a useful leading indicator of future growth, rebounded in the US, UK and Eurozone, but for the most part remained below the "50" level, signalling that most respondents still consider conditions to be deteriorating. This muted response has puzzled analysts, and may signal that respondents evaluate business conditions on a rolling basis rather than relative to the prior month.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	-2.1%			1.3%			-17.9%			-15.2%		
US	-2.6%	-2.8%	0.2%	-1.0%	-0.8%	-0.2%	1.7%	-5.3%	7.0%	8.7%	5.7%	3.0%
Europe	-1.2%	-1.7%	0.5%	4.2%	3.2%	1.0%	-3.0%	-9.7%	6.7%	0.0%	-1.5%	1.4%
Japan	-0.4%	-0.3%	-0.2%	1.3%	1.2%	0.1%	1.4%	-6.8%	8.2%	8.7%	5.5%	3.3%
Asia ex Japan	0.4%	0.2%	0.3%	8.1%	7.1%	1.1%	1.1%	-4.5%	5.6%	3.5%	1.7%	1.9%
EM	0.0%	-0.1%	0.1%	7.4%	6.9%	0.5%	-2.8%	-5.3%	2.5%	0.4%	2.2%	-1.8%

FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Corporate and Government Bonds								
UK Gov	1.1%		-0.5%		9.7%		11.7%	
US Gov	0.5%		0.2%		9.2%		11.3%	
Europe Gov	0.6%		1.2%		1.8%		2.6%	
UK Index-Linked	0.9%		0.0%		11.9%		9.1%	
UK Corporate	0.6%		1.6%		3.5%		7.1%	
UK High Yield	-0.2%		2.9%		-4.4%		0.7%	
Currencies – Spot								
GBP – USD	0.1%		0.1%		7.5%		2.9%	
GBP – EUR	0.5%		1.1%		7.5%		1.5%	
GBP – JPY	-0.2%		0.7%		8.9%		3.4%	

	YIELD	
	Local	
Sovereign and Supranational Bonds		
10 Year Gilts	0.17%	
10 Year Treasuries	0.64%	
10 Year Bunds	-0.48%	

COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Energy								
Brent	-2.8%		16.1%		-37.8%		-38.3%	
Precious Metals								
Gold	1.6%		2.4%		16.7%		25.7%	

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