

Weekly Update

Awful April, Muted May

HOLDING FIRE

The ECB stays on hold

HEY BIG SPENDER

Rishi's taxing problem

CHINA REPAIRED

Q2 GDP gives cause for optimism

VACCINES GET

VICIOUS
The race is on

A GOOD WEEK FOR

- Equities, which rallied in GBP terms, with the exception of emerging markets.
- European equities gained c. 4%, Japan and the UK c.+3%, and the US c.+2%.

A BAD WEEK FOR

- Sterling, which weakened against other major currencies on weak UK economic data, falling c. -2% versus EUR.
- Gilts, which declined c.-0.5%, while European and US government bonds gained modestly.

UK ECONOMY

Monthly GDP data showed that the UK economy recovered in May but by less than expected. The 1.8% month-on-month recovery failed to scratch the surface of the 20% decline seen in April, and was below consensus estimates of a 5% rebound. While many of those unable to work from home did return to work in May and some retail outlets re-opened, social restrictions remained widespread, resulting in services sector growth of less than 1%. The further easing of measures in June and July will improve services growth, with mandatory face coverings in shops designed to diminish public health concerns. However, the true impact of the pandemic will not become apparent until the Treasury begins to withdraw financial support for furloughed workers via the Job Retention Scheme, beginning in August. The low yields on UK government debt are testament to the fact that investors are cautious on the economy – gilts are offering negative yields for maturities up to seven years.

EUROPEAN ECONOMY

As EU leaders thrashed out the details of a Europe-wide fiscal stimulus package, the Governing Council of the European Central Bank (ECB) opted to keep monetary policy on hold. Further accommodation has already been set in train, in the form of the Asset Purchase Programme and the Pandemic Emergency Purchase Programme, as well as additional term lending for banks. Bank staff forecasts of inflation, which is expected to be below 2% into 2022, make further measures likely too. While data suggests the Eurozone recovery has been stronger than the ECB expected, President Lagarde reiterated that only “significant” positive news would steer the Council away from putting in place the measures already laid out.

CHINA ECONOMY

With the economy feeling the impact of the pandemic keenly in the first quarter, Chinese Q2 GDP delivered a strong recovery of +3.2% year-on-year growth. Robust infrastructure investment, a resilient property sector and better-than-expected exports boosted industry, with demand for PPE offsetting weaker demand for normal export goods. While retail sales recovered somewhat, they remain subdued and the services sector only just delivered positive growth. From here, services could be an important driver of further recovery if consumers regain confidence that the virus is under control. Services will be all the more key as deteriorating US-China trade relations and structural adjustments to global trade provide challenges for Chinese manufacturing.

UK PUBLIC FINANCES

The Office for Budget Responsibility (OBR) updated forecasts this week, increasing forecast gross government debt issuance by a further £20bn this fiscal year. The OBR released a range of scenarios, with a central projection of a 12% year-on-year hit to GDP growth requiring c. 16% of GDP in borrowing. The Bank of England likely purchased c. 9% of UK government debt issuance between April and July, but the purchase scheme must be extended if it is to offer ongoing support into 2021 and keep borrowing rates low. Given high projected government borrowing, the Treasury has embarked on a review of Capital Gains Tax as a potential source of higher revenue. Similar such reviews in other areas are possible as the Treasury seeks methods of raising revenue which cause minimal disruption to consumer spending.

VACCINES

As scientists make progress toward an effective vaccine, governments are working to secure access to necessary doses. With several potential vaccines being developed, policy makers have had to consider the likelihood of success in each case, as well as the chances of being able to obtain sufficient stock. It was reported this week that the UK government encouraged scientists to develop a vaccine on UK soil to avoid missing out to countries such as the US, which has a track record of buying up stocks of medicines. It has also been reported that Russian spies are targeting organisations trying to develop a coronavirus vaccine in the UK, US and Canada. With at least 1.5bn doses likely needed worldwide in 2020, no one manufacturer is likely to be able to meet demand.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	3.2%			1.9%			-16.1%			-14.8%		
US	1.7%	1.2%	0.6%	2.8%	4.3%	-1.5%	7.5%	1.8%	5.7%	9.7%	10.7%	-1.0%
Europe	3.5%	1.8%	1.8%	4.3%	4.0%	0.3%	1.6%	-5.5%	7.1%	2.6%	1.6%	1.0%
Japan	2.5%	2.3%	0.2%	0.5%	1.3%	-0.7%	0.0%	-6.6%	6.7%	3.6%	3.5%	0.0%
Asia ex Japan	-0.5%	-1.0%	0.5%	4.3%	5.6%	-1.3%	4.9%	0.5%	4.4%	4.4%	5.9%	-1.5%
EM	-0.7%	-1.2%	0.5%	4.9%	6.1%	-1.1%	1.4%	0.2%	1.2%	1.6%	7.1%	-5.5%

FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Corporate and Government Bonds								
UK Gov	-0.6%		-0.4%		9.1%		10.2%	
US Gov	0.1%		0.4%		9.5%		11.6%	
Europe Gov	0.4%		1.8%		3.9%		5.3%	
UK Index-Linked	-0.6%		-2.1%		10.0%		5.8%	
UK Corporate	0.1%		1.0%		4.5%		6.9%	
UK High Yield	0.3%		0.9%		-3.4%		1.0%	
Currencies – Spot								
GBP – USD	0.4%		-1.3%		5.5%		-1.1%	
GBP – EUR	1.6%		0.4%		7.5%		0.7%	
GBP – JPY	0.3%		-0.5%		7.1%		-0.2%	

	YIELD	
	Local	
Sovereign and Supranational Bonds		
10 Year Gilts	0.17%	
10 Year Treasuries	0.62%	
10 Year Bunds	-0.43%	

COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Energy								
Brent	-0.2%		4.8%		-34.6%		-32.2%	
Precious Metals								
Gold	0.7%		1.7%		19.3%		26.9%	

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