Close Brothers Asset Management

Weekly Update
Breaking the wrong kind of records

THE BORROWERS
Consumers continue to spend

CONGRESS STILL CARES 2
More support?

ALL THAT GLITTERS
Gold makes record gains

ANTITRUST
US tech firms face congress

A GOOD WEEK FOR

- Gold, which surged +3%.
- Sterling, which strengthened broadly.

A BAD WEEK FOR

- Equities, which weakened across the board in sterling terms, with Japan, Europe and the UK worst afflicted.
- The US dollar, which weakened over 1% on a trade weighted basis.

US ECONOMY

The US economy shrank by almost -10% in the second quarter of 2020, which translates to a -32.9% annualised decline. While this plunge is the largest decline on record, it was in line with analyst expectations, given the widespread implementation of social restrictions. Monthly consumer spending data tells a more positive story, with spending growing by +5.2% in June as more outlets opened, on top of an +8% increase in May. Initial jobless claims were also slightly better than expected, with a further 1.4m people registering for unemployment. With backward-looking data still firming, the Federal Reserve voted to keep monetary policy on hold last week but signalled that the forward guidance framework, used to manage interest rate expectations, may be adjusted in September.

UK ECONOMY

UK money and credit data last week showed signs of normalisation. Consumers cut back on spending during lockdown, weighing on unsecured (credit card) lending especially. The reopening of retail outlets has given consumers a chance to catch up on spending, further boosted by powerful income support measures. The opening up of the hospitality sector is likely to yield a further increase in consumer credit, while mortgage approvals have increased sharply. Although this data is encouraging, a rise in coronavirus cases and talk of reversing the easing of some measures threatens the economic recovery. In addition, market participants will begin to see evidence of how businesses are responding to the partial withdrawal of the Job Retention Scheme, which is due to be gradually wound down from August.

US POLICY

With the current pandemic relief stimulus package ending, US policy makers have yet to agree on a fresh package to support consumption. Key features of the CARES act have been an additional $600 per week in unemployment benefits, and direct stimulus cheques for citizens, as well as aid for state and local governments, measures that will be withdrawn if not renewed. Republican and Democrat policy makers have so far failed to agree on how to adjust unemployment benefits, with Republicans seeking to cap benefits at 70% of prior salary. The Senate is due to recess on the 7 August, offering limited time to reach an agreement. While the two parties may differ on how policies should be implemented, there is general agreement on the need for a package, likely to be in the magnitude of $1-$1.5trn dollars.

GOLD

The gold price rose 11% in July, making it the biggest monthly gain since 2012. Factors motivating the sharp increase are likely to include, subdued expectations for global growth, making safe haven assets attractive. Huge amounts of monetary stimulus has also kept bond yields low, reducing the income opportunity in safe-haven government bonds, and thus the opportunity cost of holding gold. In addition, weakness in the US dollar has further provided a further boost, as investors seek assets which can provide a real store of value. A second round of borrowing required to fund further economic stimulus may weigh on USD strength further.

TECHNOLOGY

On Wednesday US tech leaders appeared at a congressional hearing to answer questions on whether the companies they run have become too big and powerful. While the issue has been a cause of concern for investors, it does not directly impact the regulation of these companies. The areas likely to come under the most scrutiny are advertising and privacy, impacting Google in particular. Similar issues are also being raised in Europe, with Amazon's move into grocery delivery further stoking tensions.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	-3.7%			-4.5%			-21.5%			-20.7%		
US	-0.6%	1.9%	-2.4%	0.1%	5.9%	-5.8%	4.6%	3.3%	1.3%	4.9%	12.5%	-7.6%
Europe	-4.3%	-3.3%	-1.1%	-1.6%	-0.7%	-0.9%	-4.1%	-9.8%	5.7%	-3.7%	-2.5%	-1.2%
Japan	-6.9%	-4.7%	-2.2%	-7.0%	-3.6%	-3.4%	-7.5%	-11.1%	3.6%	-5.5%	-1.3%	-4.2%
Asia ex Japan	-0.7%	1.4%	-2.0%	2.0%	6.9%	-4.9%	2.6%	1.7%	0.8%	1.6%	8.4%	-6.8%
EM	-0.7%	1.6%	-2.3%	2.9%	8.1%	-5.2%	-0.5%	2.2%	-2.7%	-0.7%	10.7%	-11.3%

FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Corporate and Government Bonds				
UK Gov	0.5%	0.4%	10.0%	10.0%
US Gov	0.4%	1.2%	10.3%	12.2%
Europe Gov	2.3%	6.4%	8.6%	10.1%
UK Index-Linked	0.9%	0.7%	13.2%	7.5%
UK Corporate	0.4%	2.0%	5.5%	7.0%
UK High Yield	0.0%	1.7%	-2.7%	1.7%
Currencies – Spot				
USD – GBP	-2.2%	-5.2%	1.3%	-7.1%
EUR – GBP	-1.2%	-0.6%	6.4%	-1.2%
JPY – GBP	-2.0%	-3.4%	4.0%	-4.5%

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.11%
10 Year Treasuries	0.54%
10 Year Bunds	-0.52%

COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Energy				
Brent	-0.1%	5.2%	-34.4%	-33.6%
Precious Metals				
Gold	3.9%	10.9%	30.2%	39.8%

CBAM6086. 04.08.2020.