

## Weekly Update

### Never say never on negative rates

#### UP THE WORKERS

Is US employment data all it seems?

#### LET'S GET EXECUTIVE

Trump intervenes on pandemic aid

#### MICRO-TOK

US moves in on Chinese tech

#### IS PHASE ONE DONE?

Time to review the trade deal

#### A GOOD WEEK FOR

- Equities, which advanced across the board.
- Gold and oil prices, which both surged higher.

#### A BAD WEEK FOR

- UK government and corporate bonds, which weakened on moderate central bank guidance.
- Sterling, which weakened modestly.

#### UK ECONOMY

Members of the Bank of England's Monetary Policy Committee (MPC) voted to keep monetary policy on hold at last week's meeting. Governor Andrew Bailey emphasised that the Bank would not tighten policy until significant progress is made in eliminating spare capacity and achieving the 2% inflation target. While the market broadly seems to have received this news as a positive comment on the UK economy, updated Bank of England forecasts acknowledged that the path of growth was highly uncertain and greatly depended on the progress of health policy. On the topic of negative interest rates, into which Bank staff are conducting an official review, officials only commented that the efficacy of this policy tool may depend on the state of bank and household balance sheets. With the impact of the pandemic only likely to appear in the official data in the autumn, MPC members may have to rely on survey data to gauge the health of the economy in the near term.

#### US ECONOMY

US employment data hinted at a stronger recovery last week. July unemployment was lower than expected, at 10.2%, and continuing unemployment claims fell to their lowest level since mid-April, suggesting workers are still being re-hired into jobs. Nonetheless, unemployment remains elevated, with over 16m Americans claiming unemployment benefits. Initial unemployment claims for regular and special pandemic-related assistance also fell sharply, dropping below 2m for the first time since the start of the pandemic. The sharp decline may be due to the fact that the CARES act, which funds the pandemic-related benefits package, was due to come to an end last week. Awareness that the programme was ending may have discouraged workers from applying.

#### US POLICY

US President Trump signed four executive orders on Saturday, carrying over some financial assistance for Americans hit by the pandemic. The executive orders were necessitated by the failure of Democrat and Republican law makers to agree on the details of extending the CARES act, key features of which had been an additional \$600 per week in unemployment benefits, and direct stimulus cheques for citizens, as well as aid for state and local governments. Dividing issues include the overall size of the package, details around state and local government aid and supplementary unemployment benefits. The executive orders extend unemployment benefits, a temporary payroll tax deferral, eviction protection and student-loan relief. Negotiations must continue in order to deliver a more comprehensive spending package.

#### TECHNOLOGY

The US is forcing Chinese-owned company, TikTok, to sell or shut down its US operations and will also restrict Chinese software in the US more broadly. While the near term market impact of this news has been muted, it raises the possibility that the US administration may implement a policy of forced divestment more broadly for Chinese companies that own minority shares of US businesses. US tech stalwart Microsoft confirmed it is in talks to buy TikTok's global operations outside of China, with talks expected to be completed by mid-September. Microsoft has pledged to ensure all private data on American users be transferred back to the U.S. and be deleted from servers outside of the country.

#### CHINA ECONOMY

The Phase One trade deal, struck between China and the US at the end of last year, is due for review in August. The review is an opportunity to judge if China has met the trade deal's agreed terms, which include a commitment to purchase more US goods. US data suggest that China imported c. 23% of its annual target in the first half of the year, leaving some way to go. A weaker dollar has made it harder for China to meet its import targets, a problem exacerbated by domestic demand remaining slightly subdued.

# Performance

## EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	2.2%			2.2%			-19.7%			-14.6%		
US	2.8%	2.4%	0.4%	2.8%	2.4%	0.4%	7.5%	5.7%	1.8%	10.9%	19.0%	-8.1%
Europe	2.2%	2.0%	0.3%	2.2%	2.0%	0.3%	-2.0%	-8.0%	6.1%	1.0%	3.4%	-2.4%
Japan	3.6%	3.3%	0.3%	3.6%	3.3%	0.3%	-4.1%	-8.2%	4.0%	-1.2%	6.2%	-7.3%
Asia ex Japan	1.9%	1.4%	0.5%	1.9%	1.4%	0.5%	4.5%	3.2%	1.3%	10.0%	15.9%	-5.8%
EM	1.4%	1.3%	0.1%	1.4%	1.3%	0.1%	0.9%	3.5%	-2.6%	6.9%	17.3%	-10.4%

## FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
<b>Corporate and Government Bonds</b>								
UK Gov		-0.8%		-0.8%		9.2%		6.7%
US Gov		-0.2%		-0.2%		10.2%		9.5%
Europe Gov		-0.3%		-0.3%		8.3%		7.6%
UK Index-Linked		-1.6%		-1.6%		11.4%		3.5%
UK Corporate		-0.2%		-0.2%		5.4%		5.7%
UK High Yield		0.4%		0.4%		-2.3%		2.3%
<b>Currencies – Spot</b>								
USD – GBP		0.3%		0.3%		1.6%		-7.0%
EUR – GBP		0.3%		0.3%		6.8%		-2.1%
JPY – GBP		0.2%		0.2%		4.2%		-6.7%

	YIELD	
	Local	
<b>Sovereign and Supranational Bonds</b>		
10 Year Gilts		0.14%
10 Year Treasuries		0.57%
10 Year Bunds		-0.50%

## COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
<b>Energy</b>								
Brent		2.5%		2.5%		-32.7%		-21.0%
<b>Precious Metals</b>								
Gold		3.0%		3.0%		34.2%		35.6%

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