

Weekly Update

Can eating out help us out of a GDP hole?

NON-EMPLOYMENT

Fewer UK workers are working

THE VIRTUAL DNC

Harris announced ahead of DNC

MAKE BRITAIN GRATE

AGAIN

The Stilton blue it

SPUTNIK V

Russia's vaccine

A GOOD WEEK FOR

- Japanese equities, which rebounded c. 4% in GBP terms.
- Stocks rose in the UK, Europe, and the US also.

A BAD WEEK FOR

- Bonds, which broadly weakened. Gilts weakened -1.3%.
- Gold, which declined over -4% in USD terms.

UK ECONOMY

The UK economy entered a technical recession in the second quarter of 2020, with growth declining over two consecutive quarters. GDP growth fell -20.4% in Q2, as the economy felt the full burden of pandemic-related disruption. While the economy shrank more in the second quarter of 2020 than in the first, the economic situation actually showed signs of improvement. In Q1, only half a month of economic performance was impacted by pandemic control measures in the UK. In the second quarter, pandemic measures were in place for all three months, though restrictions were gradually eased through May and June. Monthly GDP data shows that the economy shrank by c. -20% in the month of April, but recovered by 2% in May and almost 9% in June, when non-essential retail activity resumed. Given that the hospitality industry began to re-open in July, we would expect growth to recover further in Q3, with July likely to be a good month for service-sector growth.

UK EMPLOYMENT

Estimates of UK employment were also released last week, showing a large decrease in employment, with a net figure of c. 73,000 people leaving employment in the second quarter. The survey data showed that self-employment especially declined, with over 200,000 workers leaving previous roles. However, unemployment remains flat for now – because many of these workers are not recorded as currently seeking work, they are not counted as unemployed but as economically-inactive. Moreover, workers participating in the Coronavirus Jobs Retention Scheme are also excluded from unemployment statistics. HMRC data suggests that around 9.6m workers are currently in the scheme. While reported unemployment remains low, wage growth did decline in both nominal and real terms, a symptom of a weaker labour market. Real-terms pay growth is supportive of consumption growth, which constitutes a large share of the UK economy.

US POLITICS

Joe Biden, Democrat candidate for the 2020 presidential election announced last week that Kamala Harris would be his running mate. The news was released ahead of the Democratic National Convention, starting this week, where the party will indicate likely policies in November. Prominent “establishment” Democrats Hillary Clinton and Elizabeth Warren are both expected to address the Convention of Tuesday, alongside Harris. In a first, the Democrat convention will be entirely virtual due to the pandemic, which may make it challenging to gain traction with audiences. In response, President Trump reportedly plans to flood the internet with a digital advertising campaign, in a bid to drown out Democrat messages.

GLOBAL TRADE

The UK's much feted trade-deal with Japan hit a rocky patch last week over the issue of cheese. Both sides had reached significant agreement on many areas of the deal, which would have seen the UK retain many areas of access currently covered by the incumbent deal in place via the EU. However, efforts to include Stilton cheese in the deal, which would have signalled that the deal went further than the EU deal, were unsuccessful. This failure illustrates the challenges ahead of the UK as the end of the year approaches. Talks between the UK and the EU yielded little over the summer and so there is much to do as December approaches.

VACCINES

In an unexpected twist, Russia has become the first country in the world to approve a coronavirus vaccine, named Sputnik V. President Putin declared that the vaccine has been found to be both safe and effective, and that a mass vaccination scheme is to start in Russia in October. The announcement has raised concerns within medical and scientific communities, given the short timeframe that would have been available to test the safety of a vaccine. While there are records of phase I and II trials, which do test the safety of a drug, they were short. Additionally, no details have been released of a phase III trial, which would check that the vaccine is effective at protecting patients from the virus. If people believe themselves to be immune when they are not, the virus could spread more widely, causing many more deaths and protracted economic uncertainty.

Performance

EQUITIES

| | 1 WEEK | | | MTD | | | YTD | | | 1 YEAR | | |
|---------------|--------|------|-------|------|------|-------|--------|-------|-------|--------|-------|--------|
| | £ | Loc. | Rel. | £ | Loc. | Rel. | £ | Loc. | Rel. | £ | Loc. | Rel. |
| UK | 1.4% | | | 3.6% | | | -18.6% | | | -13.1% | | |
| US | 0.2% | 0.7% | -0.5% | 3.1% | 3.1% | 0.0% | 7.8% | 6.5% | 1.3% | 12.0% | 21.6% | -9.7% |
| Europe | 1.6% | 1.4% | 0.2% | 3.9% | 3.4% | 0.5% | -0.4% | -6.7% | 6.3% | 3.1% | 5.4% | -2.3% |
| Japan | 3.8% | 4.9% | -1.0% | 7.5% | 8.3% | -0.8% | -0.5% | -3.7% | 3.2% | 1.9% | 11.4% | -9.5% |
| Asia ex Japan | 0.2% | 0.6% | -0.5% | 2.1% | 2.1% | 0.0% | 4.7% | 3.8% | 0.9% | 9.3% | 16.5% | -7.2% |
| EM | -0.1% | 0.2% | -0.3% | 1.4% | 1.6% | -0.2% | 0.9% | 3.8% | -2.9% | 6.8% | 18.2% | -11.4% |

FIXED INTEREST AND CURRENCIES

| | 1 WEEK | | MTD | | YTD | | 1 YEAR | |
|---------------------------------------|--------|--|-------|--|-------|--|--------|--|
| | Local | | Local | | Local | | Local | |
| Corporate and Government Bonds | | | | | | | | |
| UK Gov | -1.5% | | -2.3% | | 7.5% | | 4.3% | |
| US Gov | -1.1% | | -1.2% | | 9.0% | | 7.5% | |
| Europe Gov | -0.5% | | -0.8% | | 7.7% | | 7.5% | |
| UK Index-Linked | -3.4% | | -5.0% | | 7.5% | | -1.1% | |
| UK Corporate | -0.6% | | -0.7% | | 4.8% | | 4.8% | |
| UK High Yield | 0.4% | | 0.8% | | -1.9% | | 2.8% | |
| Currencies – Spot | | | | | | | | |
| USD – GBP | -0.3% | | 0.0% | | 1.3% | | -7.8% | |
| EUR – GBP | 0.2% | | 0.5% | | 7.0% | | -2.0% | |
| JPY – GBP | -0.9% | | -0.7% | | 3.3% | | -8.4% | |

| | YIELD | |
|--|--------|--|
| | Local | |
| Sovereign and Supranational Bonds | | |
| 10 Year Gilts | 0.23% | |
| 10 Year Treasuries | 0.68% | |
| 10 Year Bunds | -0.43% | |

COMMODITIES

| | 1 WEEK | | MTD | | YTD | | 1 YEAR | |
|------------------------|--------|--|-------|--|--------|--|--------|--|
| | Local | | Local | | Local | | Local | |
| Energy | | | | | | | | |
| Brent | 0.9% | | 3.5% | | -32.1% | | -24.7% | |
| Precious Metals | | | | | | | | |
| Gold | -4.4% | | -1.6% | | 28.2% | | 28.3% | |

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