

# Weekly Update

## The bubble that got too big?

### THE WAVE OF WORKLESSNESS

Unemployment data diverges

### BETTER BUT SLOWER

PMIs signal slowing progress

### OH LA LA

France unveils new fiscal plans

### BREXIT'S BACK

The soap opera continues

### A GOOD WEEK FOR

- Government bonds, broadly advancing in local terms.
- Japanese equities, which rallied after last week's sell-off.

### A BAD WEEK FOR

- The global technology sector, which declined c. -4%.
- Oil prices, which slid over -5% in US dollar terms.

### TECHNOLOGY

Having driven the US equity market rally since the lows reached in March, technology stocks swooned last week, falling -6% on Thursday. Within the MSCI World index, a select few tech stocks have performed very strongly year to date, delivering significant positive returns. Beyond these names, however, the broader market in aggregate is still below March levels. With strong performance concentrated in names such as Apple, Amazon, Microsoft and Tesla, many investors may have felt it prudent to take the opportunity to realise some of these gains while prices were high, or feared that prices were rising too far too fast. However, even after sharp falls, technology remains 2020's best performing sector.

### EMPLOYMENT

Employment data from the Eurozone and the US this week further illustrated the potential scale of the economic impact of coronavirus. Eurozone aggregate unemployment edged up only slightly in July to 7.9%, however regional data told diverging stories. While German unemployment remained at 6.4%, unemployment rose to 9.7% in Italy, where a high exposure to tourism is likely to be driving job losses this summer. In the US, unemployment fell more than expected, declining to 8.4% in August, from 10.2% in July. However, while the decline is encouraging, employee numbers increased by the smallest number in four months, suggesting that the pace of progress is slowing.

### LEADING INDICATORS

Purchasing Manager's Index (PMI) data, a leading indicator of economic growth, broadly indicated continued expansion across major economies this week. However, the pace of improvement, which has come from a low base, appears to be slowing. Composite indicators were above 50, signalling expansion, in China, the US and the UK and in the Eurozone aggregate measure. However, Both Spain and Italy slipped below 50, joining Japan. The deterioration in the surveys coincides with the re-imposition of social restriction in Europe at a key time for the Mediterranean services economy.

### FISCAL POLICY

This week the French government announced details of a EUR100bn recovery plan, worth c. 4% of GDP. The plan comprises EUR80bn of budget spending, and focuses on bolstering the supply side capacity of the French economy. The funds are more or less equally split across three pillars – energy-efficiency renovations, transport renewal and investment for a “green transition”. The package also included business tax cuts to boost competitiveness and innovation, and funds to promote social and territorial cohesion. In the US, however, concern is growing that Congress may not pass an extension to the CARES act before the November US election, removing a key pillar of support to consumption growth.

### BREXIT

With the end of the transition period fast approaching, concern is growing over the prospect of a no-deal Brexit. In a move likely to antagonise relations, the UK Government is expected to introduce legislation to override some of the provisions of the Irish protocol that were agreed in the Withdrawal Agreement last year - a step which is likely to be seen by the EU as reneging on the agreement. PM Johnson is further expected to warn the EU that an outline trade agreement must be reached by the mid October or he will prepare to trade on WTO terms. The October EU council summit is a natural deadline for a deal to be agreed but, as ever, we anticipate that brinkmanship may yield some flexibility.

# Performance

## EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	-2.5%			-2.5%			-22.3%			-19.4%		
US	-1.8%	-2.4%	0.6%	-1.4%	-2.3%	1.0%	8.6%	8.4%	0.1%	10.3%	19.7%	-9.4%
Europe	-1.4%	-1.5%	0.2%	-0.7%	-0.7%	0.1%	-2.6%	-7.7%	5.1%	-1.6%	-0.5%	-1.1%
Japan	0.4%	0.7%	-0.3%	0.7%	-0.1%	0.7%	-1.8%	-4.1%	2.3%	1.4%	10.1%	-8.7%
Asia ex Japan	-1.6%	-2.0%	0.4%	0.0%	-0.7%	0.7%	4.3%	4.1%	0.2%	7.2%	13.8%	-6.6%
EM	-1.3%	-2.0%	0.7%	0.8%	-0.4%	1.2%	0.4%	4.0%	-3.6%	4.7%	15.1%	-10.5%

## FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
<b>Corporate and Government Bonds</b>								
UK Gov	0.9%		0.9%		7.5%		3.5%	
US Gov	0.1%		-0.1%		8.9%		6.6%	
Europe Gov	-0.3%		-0.7%		7.9%		7.3%	
UK Index-Linked	-0.3%		-0.3%		7.8%		-0.2%	
UK Corporate	0.7%		0.7%		5.3%		5.2%	
UK High Yield	0.4%		0.4%		-1.1%		2.8%	
<b>Currencies – Spot</b>								
USD – GBP	0.5%		0.7%		-0.2%		-7.7%	
EUR – GBP	0.0%		-0.2%		5.4%		-1.0%	
JPY – GBP	-0.3%		0.4%		2.1%		-7.6%	

	YIELD
	Local
<b>Sovereign and Supranational Bonds</b>	
10 Year Gilts	0.26%
10 Year Treasuries	0.72%
10 Year Bunds	-0.45%

## COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
<b>Energy</b>								
Brent	-5.3%		-5.8%		-35.4%		-29.7%	
<b>Precious Metals</b>								
Gold	-1.6%		-1.7%		27.5%		24.6%	

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