

# Weekly Update

## Testing Trump

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### WRIST AND ELBOW FRUITLESSNESS

Brexit arm-wrestle continues

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### SAVINGS SOAR

UK households hunker down

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### BETTER US JOBS DATA...

...For the wrong reasons

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### CRUDE AWAKENING

Investors think twice about oil

### A GOOD WEEK FOR

- Sterling, which appreciated c. 1% versus peers.
- Gold, which was boosted by the unwind of US dollar strength.

### A BAD WEEK FOR

- Oil, which fell -6% in US dollar terms.
- The US dollar, which declined c. -1% over the week on a trade weighted basis.

### US POLITICS

Days after the first US presidential election debate, President Trump announced that he had tested positive for Covid-19 and was subsequently admitted to hospital. This event appears to have partially thawed relations between the Republican and Democratic parties, potentially increasing the chances that a new stimulus package will be passed ahead of the November election. Investors also appear to have interpreted Trump's health emergency as a negative for his electoral campaign – in-person rallies are likely to be off the table for weeks, along with the second debate. With Biden ahead in the polls, any further boost increases the chances of a Democratic majority in the upper and lower house, making it easier for him to pass laws. This makes further fiscal spending more likely, as well as other proposed reforms, including higher personal taxes for the wealthy and tighter regulations for the healthcare sector, energy and banking.

### BREXIT

UK and EU negotiators completed the last formal round of talks ahead of the October European Council meeting without reaching agreement on the UK's future relationship with the EU. Relations have been strained further by the EU commencing formal legal action against the UK in the event that it does not act to preserve the Northern Ireland protocol contained in the Withdrawal Agreement signed last year. However, Prime Minister Johnson and European Commission President agreed on Saturday to extend negotiations to early November, as "reasons for hope" remain. With the UK's new relationship with the EU set to begin in January, with or without a deal, businesses are likely to face significant changes, as the deal discussed is narrow in scope.

### UK ECONOMY

The UK household savings rate rocketed in the three months to June to over 29%, as harsh social restrictions curbed consumption activity. With measures relaxed over the summer months, we expect that consumption rebounded sharply, causing the savings rate to decline significantly. However, households may remain cautious on the economic outlook if unemployment rises, which typically corresponds with much higher saving. Should the increase in unemployment be sustained, the saving rate may then begin to fall again as an increasing number of households use savings to supplement income.

### US ECONOMY

US unemployment continued to decline in September, but for less than positive reasons. While unemployment declined to 7.9%, from a peak of 15% in April, the decline was mostly driven by workers leaving the labour market. Labour force participation declined to 61.4% from 61.7%, with the biggest declines amongst older and prime-age female workers. Temporary unemployed workers (those on furlough) also fell as a share of total job seekers from 45% to 35%. Permanently unemployed workers are likely to take longer to find jobs than furloughed workers, pointing to a slower pace of employment growth.

### OIL

Having rallied hard since April lows, the oil price has faced renewed pressure in recent weeks. While oil stocks have been depleted somewhat, the longer term outlook for oil demand is expected to be subdued into the second half of 2021 at the earliest. Demand in China has recovered significantly, but demand in the Americas and Europe remains somewhat weaker than usual. Despite this backdrop, the Organisation of Petroleum Exporting Countries (OPEC) and nations allied to the organisation are reportedly considering a production increase which would add 2 million barrels a day in 2021. With green infrastructure initiatives at the forefront of many governments' stimulus plans, investors are also speculating as to whether peak oil demand will come sooner than expected.

# Performance

## EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	1.1%			0.7%			-21.0%			-15.9%		
US	-0.1%	1.7%	-1.8%	-0.5%	-0.3%	-0.2%	9.2%	6.5%	2.7%	13.8%	19.6%	-5.8%
Europe	1.0%	1.9%	-0.9%	0.2%	0.4%	-0.2%	-1.1%	-7.6%	6.5%	3.1%	1.3%	1.8%
Japan	-2.2%	-0.8%	-1.5%	-0.9%	-0.9%	0.0%	1.1%	-4.4%	5.5%	-0.1%	3.0%	-3.1%
Asia ex Japan	0.0%	1.2%	-1.3%	-0.2%	-0.1%	-0.1%	5.4%	2.5%	2.9%	9.1%	11.8%	-2.7%
EM	0.4%	1.8%	-1.4%	-0.1%	-0.1%	0.0%	1.4%	2.5%	-1.1%	6.5%	13.4%	-6.9%

## FIXED INTEREST AND CURRENCIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Corporate and Government Bonds												
UK Gov	-1.2%			-0.6%			7.5%			3.0%		
US Gov	-0.3%			-0.2%			9.0%			7.6%		
Europe Gov	1.0%			0.0%			7.7%			8.3%		
UK Index-Linked	-0.2%			-0.3%			9.6%			0.0%		
UK Corporate	-0.3%			-0.2%			4.9%			4.7%		
UK High Yield	0.4%			0.2%			-1.5%			1.6%		
Currencies – Spot												
USD – GBP	-1.5%			-0.1%			2.5%			-4.9%		
EUR – GBP	-0.8%			-0.2%			7.0%			1.7%		
JPY – GBP	-1.2%			0.0%			5.7%			-3.2%		

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.24%
10 Year Treasuries	0.70%
10 Year Bunds	-0.54%

## COMMODITIES

	1 WEEK			MTD			YTD			1 YEAR		
	Local			Local			Local			Local		
Energy												
Brent	-6.3%			-4.1%			-40.5%			-31.9%		
Precious Metals												
Gold	2.1%			0.7%			25.2%			26.7%		

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