

Weekly Update

Here we go again?

WHEN EATING OUT ISN'T ENOUGH

August GDP disappoints

MONETARY MINUTES

Central bankers are
cautious

NEXT-GEN NEGOTIATIONS

Nothing is ever simple in
Europe

COVAX +1

China joins the vaccine
alliance

A GOOD WEEK FOR

- Equities, which rallied broadly, led higher by the US.
- Oil, which reversed course, gaining +9% in USD terms.

A BAD WEEK FOR

- The US dollar, which continued to decline c. -1% over the week on a trade weighted basis.
- US and UK government bonds, which softened.

UK POLICY

On Friday UK Chancellor Rishi Sunak announced a significant expansion of the new 'Job Support Scheme' in anticipation of a tightening of social restrictions as UK coronavirus cases are rising. The scheme will now pay two thirds of wages for workers at businesses legally required to shut from the first of November, with the policy under review in the New Year. This is a much stronger policy than the existing Job Support Scheme, which only offered a third of wages, but less generous than the original Coronavirus Job Retention Scheme, which was open to all businesses and paid a higher proportion of salaries. While further support will be welcome, under the government's new three-tier alert system, businesses will likely face significant disruption this winter. This makes yet more fiscal measures likely.

UK ECONOMY

Monthly GDP data for August disappointed analyst expectations, showing the economy grew by 2.1%. While growth was expected to slow from July, when GDP grew by 6.6%, August growth was less than half the expected rate of 4.6%. Sector-by-sector analysis of the economy reveals that the Eat Out To Help Out scheme offered a significant boost to the hospitality sector, but economic activity was weak elsewhere. The fact that economic growth was slowing quickly during August, when social restrictions were more relaxed and the furlough scheme was still in place, is likely a worry for policy makers.

MONETARY POLICY

Monetary policy minutes released this week by US and European central banks indicated a greater degree of caution from policy makers. While the US Federal Reserve has updated the inflation target, making higher inflation acceptable, committee members expressed doubt as to their ability to reach that target. Members also commented on concerns that business loan delinquency may be on the rise amongst small and medium enterprises. At the European Central Bank, inflation expectations were similarly muted. Members also discussed the possibility of cutting interest rates further into negative territory, a move that would be less popular with investors than further asset purchases.

EUROPEAN ECONOMY

Negotiations regarding the European recovery fund, known as NextGenEU, have reportedly hit trouble. The fund, which offers EUR750bn of funding via loans and grants, is designed to boost access to cheap funding in a bid to support the recovery in Eurozone countries. Fiscally conservative countries, backed by the European Parliament, are requesting tougher rule of law standards as a condition of access to the funds, which is causing tension with countries such as Hungary and Poland. If no compromise is reached, it is possible that the plan is rejected and a delay, at least, seems possible. This could have a material impact on European growth in 2021 as 10% of the grants are due to be dispersed next year.

VACCINES

China last week became the largest economy to join the global vaccine initiative Covax. The alliance of 171 countries seeks to avoid "vaccine nationalism" and ensure equitable access to a coronavirus vaccine when it becomes available. China's decision to join the programme may be an exercise in image management, having come under fire for responding to the initial coronavirus outbreak slowly. It also draws attention to the fact that the US is currently not a member of the programme.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	1.8%			2.5%			-19.6%			-15.0%		
US	3.2%	3.9%	-0.7%	2.7%	3.6%	-0.9%	12.7%	10.7%	2.1%	15.2%	22.9%	-7.7%
Europe	2.5%	2.3%	0.2%	2.7%	2.7%	0.0%	1.5%	-5.4%	6.9%	3.5%	2.5%	1.0%
Japan	1.4%	2.4%	-1.0%	0.4%	1.4%	-1.0%	2.5%	-2.2%	4.7%	1.5%	6.5%	-5.1%
Asia ex Japan	3.4%	3.5%	-0.2%	3.2%	3.5%	-0.2%	9.0%	6.2%	2.8%	12.0%	16.3%	-4.3%
EM	3.1%	3.1%	-0.1%	2.9%	3.0%	-0.1%	4.5%	5.8%	-1.3%	8.3%	17.0%	-8.6%

FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Corporate and Government Bonds								
UK Gov	-0.3%		-0.9%		7.2%		2.5%	
US Gov	-0.5%		-0.7%		8.5%		6.9%	
Europe Gov	1.0%		0.9%		8.7%		9.1%	
UK Index-Linked	-0.7%		-1.0%		8.8%		-0.1%	
UK Corporate	0.3%		0.0%		5.2%		5.1%	
UK High Yield	0.5%		0.7%		-1.0%		2.6%	
Currencies – Spot								
USD – GBP	-0.8%		-0.9%		1.6%		-6.4%	
EUR – GBP	0.1%		0.0%		7.2%		0.9%	
JPY – GBP	-1.1%		-1.1%		4.5%		-4.8%	

	YIELD	
	Local	
Sovereign and Supranational Bonds		
10 Year Gilts	0.28%	
10 Year Treasuries	0.78%	
10 Year Bunds	-0.54%	

COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Energy								
Brent	9.1%		4.6%		-35.1%		-26.5%	
Precious Metals								
Gold	1.6%		2.4%		27.2%		28.2%	

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