

Weekly Update

Ready for round two

DEADLINES

SCHMEDLINES

UK EU negotiations are down to the wire

MOODY'S BLUES

The UK gets a downgrade

JOBS JUMP

Data sends mixed messages

ALIPAY-DAY

China's blockbuster IPO

A GOOD WEEK FOR

- UK Gilts, which rallied +1.3% on weaker UK headlines, despite a ratings downgrade.
- US and EM equities delivered positive returns in GBP terms, helped by US dollar strength.

A BAD WEEK FOR

- Equities in other regions, especially the UK.
- Sterling, which weakened, especially versus the dollar and the yen.

UK ECONOMY

UK data showed that the unemployment rate rose to 4.5% in August, a bigger rise than expected. While this remains a relatively low rate when compared to the US or Eurozone economies, the data refers to a period when the Coronavirus Job Retention Scheme (CJRS) remained in place, meaning furloughed workers are counted as employed. The withdrawal of the generous CJRS is expected to cause employers to think carefully about their future labour needs, with unemployment likely to rise further as a result. The re-imposition of tighter social restrictions across much of the UK is likely to weigh on economic activity. Measures are in place to help workers at businesses legally obliged to close, though only more limited help is available for businesses able to open but suffering from lower custom. Overall, such a backdrop suggests slowing wage growth, and thus weaker consumer spending.

BREXIT

Last week's European Council meeting has long been seen as the last formal opportunity to agree a future relationship between the UK and EU, but the deadline was missed. The same obstacles blocking progress to a deal remain in place. These are how to transition to new fishing rights, which would be politically costly for the French, and how to oversee and ensure UK adherence to EU rules on state aid, as well as the question of the status of Northern Ireland and the placement of a goods border. Prime Minister Johnson ratcheted up the pressure on Friday, saying that unless there is fundamental change in the EU approach a no-deal scenario would emerge. While talks are still ongoing, the scope of the agreement under discussion remains narrow, meaning that the UK economy faces significant changes with or without a deal.

UK FINANCING

Moody's - one of the three main credit ratings agencies - last week downgraded the UK's credit rating to Aa3 from Aa2. Moody's cited the weakening strength of the UK economy in the wake of the pandemic and continued Brexit uncertainty. Whilst the downgrade is unlikely to impact pricing in the short-term, foreign demand for UK government bonds is likely to suffer over the medium term. Non-AAA bonds are less attractive to banks, insurers and pension funds, as they are treated less favourably by regulatory capital requirement rules.

US ECONOMY

US benefit claims data sent mixed messages this week, and hinted at data anomalies. The headline count of continuing unemployment claims fell sharply from 11.2m to 10.0m as of the week of October 10. However, this may be due to normal state benefits expiring, causing job-seekers to transition into the Pandemic Emergency Unemployment Compensation program, which extends benefits for another 13 weeks, but for which data is more lagged. Data for pandemic-related benefits appeared incomplete, while new claims for unemployment insurance rose - with regular benefit claims rising by 53,000. Congress remain unable to reach an agreement on extending pandemic stimulus measures, meaning that fiscal measures are expected to begin to weigh on growth in the fourth quarter. A decisive election outcome is the surest way to deliver further spending.

CHINA MARKETS

While western economies continue to wrestle with the effects of the pandemic, Chinese capital markets are breaking new records. Hong Kong and Shanghai stock exchanges are set for the initial public offering (IPO) of Ant Group, one of the world's most valuable fintech companies. Ant Group, formally known as Ant Financial, began as the payment division of Alibaba. Its mobile wallet app, Alipay, boasts more than a billion users and 55 percent share of China's digital payments market. The listing is seeking to raise \$35 billion, which would make it the largest in history. The IPO shines a light on the regulatory tensions investors face with Chinese businesses. Coveted access to Chinese consumers is desirable, but there remains a chance that the company could be blacklisted by the US administration.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	-1.8%			0.6%			-21.1%			-16.7%		
US	1.0%	0.3%	0.7%	3.8%	3.9%	-0.1%	13.9%	11.0%	2.9%	19.6%	20.3%	-0.7%
Europe	-0.7%	-0.5%	-0.1%	2.0%	2.1%	-0.1%	0.8%	-5.9%	6.7%	4.0%	-1.1%	5.1%
Japan	-0.7%	-1.7%	1.0%	-0.3%	-0.3%	0.0%	1.8%	-3.8%	5.6%	4.0%	1.3%	2.7%
Asia ex Japan	0.9%	0.4%	0.4%	4.1%	3.9%	0.2%	9.9%	6.6%	3.3%	15.0%	13.2%	1.9%
EM	0.9%	0.3%	0.6%	3.8%	3.4%	0.5%	5.4%	6.1%	-0.7%	11.6%	14.0%	-2.4%

FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Corporate and Government Bonds								
UK Gov	1.5%		0.6%		8.8%		6.9%	
US Gov	0.3%		-0.4%		8.8%		8.2%	
Europe Gov	0.0%		1.0%		8.7%		8.9%	
UK Index-Linked	2.5%		1.5%		11.6%		6.7%	
UK Corporate	0.7%		0.8%		6.0%		7.1%	
UK High Yield	0.2%		0.8%		-0.9%		2.0%	
Currencies – Spot								
USD – GBP	1.0%		0.1%		2.6%		-0.7%	
EUR – GBP	0.1%		0.0%		7.3%		5.2%	
JPY – GBP	1.2%		0.1%		5.8%		2.5%	

	YIELD	
	Local	
Sovereign and Supranational Bonds		
10 Year Gilts	0.18%	
10 Year Treasuries	0.76%	
10 Year Bunds	-0.62%	

COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Energy								
Brent	0.2%		4.8%		-35.0%		-27.8%	
Precious Metals								
Gold	-1.6%		0.7%		25.2%		27.5%	

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