Close Brothers Asset Management

Weekly Update
Brexit negotiations are back on

RISHI DISHES MORE CASH
More support for jobs

SEPTEMBER SURGE
UK inflation gets a boost

FEELING BEIGE
Fed Beige book highlights concerns

A RISE IN FALL
China's GDP continues to rise

A GOOD WEEK FOR

- Emerging market equities, which rallied in GBP terms.
- Sterling, which strengthened against the falling dollar and the yen.

A BAD WEEK FOR

- Equities in the US, Europe and UK.
- Bonds, which sold off, especially in the UK.

BREXIT

Sterling rallied sharply last Wednesday as Downing Street confirmed that negotiations with the EU were back on. Prime Minister Johnson had declared the prior week that negotiations were over unless the EU changed its approach, but discussions appear to have been more constructive behind the scenes. Time is becoming increasingly tight and deadlines increasingly real. If a deal is to pass through the full EU mechanism in time for January, serious progress is required in the next three weeks. Even if this can be achieved, it leaves very little time for businesses and institutions to ready themselves for new arrangements. The scope of the agreement under discussion remains narrow, meaning that the UK economy faces significant changes with or without a deal.

UK ECONOMY

UK chancellor, Rishi Sunak, announced a strengthening of the Jobs Support Scheme (JSS) in a bid to protect employment. On Thursday, Sunak relaxed the eligibility requirements of the scheme, cutting the required share of usual hours from a third to a fifth. He also cut the required top-up contribution from employers to 5%, and boosted the share payed by the state. The enhancement to the scheme coincides with the introduction of stricter social restrictions across many parts of the UK. The government also announced an expansion to the Self-Employment Insurance Support Scheme, now covering 40% of average monthly trading profits compared to 20% previously. More generous support for workers will likely help keep unemployment down for longer, however it clearly also places a yet greater burden on the public purse. While less generous than the Coronavirus Jobs Retention Scheme, extending measures such as the JSS will prolong the period of higher spending.

Public sector borrowing was £36bn in September, five times higher than last year.

UK MONETARY POLICY

UK inflation accelerated in September, but not by much. A year on year reading of 0.5% was well below the Bank of England's 2% inflation target, but did mark a modest pick-up compared to August. The stronger number was, in part, due to the end of the Eat Out to Help Out scheme, which suppressed pricing for dining out. This effect will be transitory and Bank staff will be looking to the health of the economy in order to forecast inflation. With unemployment likely to rise from here, wage pressures are unlikely to push up costs. Brexit remains the wildcard, with currency fluctuations and possibly even tariffs potentially affecting inflation in the New Year.

US ECONOMY

The US Federal Reserve's report on economic conditions painted a picture of "slight to modest" economic recovery in September and October. The report, known as the Beige Book, acknowledged slowing retail sales and concerns that the arrival of cooler weather may weigh on custom. Demand for autos remains steady, but banks highlighted concern that loan delinquency rates may rise. The Congressional Budget Office has highlighted its concern that a lack of stimulus since July has begun to bite in the fourth quarter. Congress closed for the election unable to reach an agreement on extending pandemic stimulus measures. A decisive election outcome is the surest way to deliver further spending, although the new presidential term will not begin until January.

CHINA ECONOMY

China continued to deliver robust GDP growth in the third quarter. The economy grew by 4.9% year-on-year, and 2.7% quarter-on-quarter, representing a modest deceleration on the bounce-back in the second quarter and a lower reading than surveyed expectations. The detail of the data revealed better than expected growth in retail sales and exports, as well as industrial production. However, infrastructure investment - significant for the global industrials cycle - and hospitality remained weaker. The upcoming US election will determine the US approach to China, but even under a Biden presidency we expect US policy to remain somewhat hawkish towards China, meaning that tariffs may remain in place.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	-0.8%			-0.2%			-21.7%			-18.4%		
US	-1.4%	-0.6%	-0.8%	2.3%	3.3%	-1.0%	12.3%	10.3%	2.0%	17.6%	19.1%	-1.4%
Europe	-1.2%	-1.4%	0.2%	0.8%	0.7%	0.1%	-0.4%	-7.2%	6.8%	2.4%	-2.6%	5.1%
Japan	0.2%	0.4%	-0.3%	-0.1%	0.2%	-0.3%	1.9%	-3.4%	5.3%	3.8%	1.4%	2.4%
Asia ex Japan	-0.1%	0.6%	-0.6%	4.0%	4.5%	-0.4%	9.8%	7.2%	2.7%	15.1%	14.3%	0.7%
EM	0.3%	0.7%	-0.5%	4.1%	4.1%	0.0%	5.7%	6.9%	-1.2%	11.3%	14.8%	-3.4%

FIXED INTEREST AND CURRENCIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Corporate and Government Bonds				
UK Gov	-1.6%	-1.0%	7.1%	5.4%
US Gov	-0.6%	-1.1%	8.1%	7.6%
Europe Gov	0.2%	1.1%	8.9%	8.5%
UK Index-Linked	-1.3%	0.2%	10.1%	6.6%
UK Corporate	-0.4%	0.4%	5.6%	6.1%
UK High Yield	0.6%	1.4%	-0.3%	2.4%
Currencies – Spot				
USD – GBP	-1.0%	-0.9%	1.6%	-1.0%
EUR – GBP	0.2%	0.3%	7.5%	5.5%
JPY – GBP	-0.3%	-0.2%	5.5%	2.8%

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.28%
10 Year Treasuries	0.80%
10 Year Bunds	-0.59%

COMMODITIES

	1 WEEK	MTD	YTD	1 YEAR
	Local	Local	Local	Local
Energy				
Brent	-2.7%	2.0%	-36.7%	-31.7%
Precious Metals				
Gold	0.1%	0.9%	25.4%	27.5%

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