

Weekly Update

Brexit negotiations are back on

RISHI DISHES MORE CASH

More support for jobs

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 paid 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.

SEPTEMBER SURGE

UK inflation gets a boost

FEELING BEIGE

Fed Beige book highlights concerns

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%		

IMPORTANT INFORMATION

MSCI: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

The information contained in this document is believed to be correct but cannot be guaranteed. Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise and is not guaranteed. An investor may not get back the original amount invested. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation. Where links to third party websites are provided, Close Brothers Asset Management accepts no responsibility for the content of such websites nor the services, products or items offered through such websites.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of the Close Brothers Group plc group of companies, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86. CBAM6136. 27.10.2020.