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Privateoffice Weekly Market Update – 10th August 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

Major equity markets continued to grind slowly higher last week leave the may “bears” frustrated.

Major Issues

Covid-19

There was no movement regarding the coronavirus stimulus package on **Monday** as the main sticking point remained the federal boost to unemployment assistance. Both Democrats and Republicans agree on another $1200 stimulus cheque. On **Wednesday** Dr. Fauci said the pandemic may not be tamed until end of 2021 as global cases reached nearly 19 million and deaths topped 710,000.
On **Thursday** Goldman Sachs strategists said that the market was under-pricing the possibility of a vaccine.

Geopolitics

On **Monday** Mike Pompeo said that President Trump was set to announce “in the coming days” new actions related to Chinese software companies viewed by the administration as a national security threat.
On **Wednesday** Mike Pompeo said that the administration wanted to ban “untrusted” Chinese apps such as TikTok and WeChat from US app stores.

US Debt

The US Treasury department announced that it will sell $112 billion in bonds this week as it looks to finance the response to the pandemic. It will issue longer dated to take advantage of low interest rates.

The United Kingdom

UK Equities

The FT100 index was dragged lower first thing on **Monday** as poor HSBC results pulled the banking sector lower. The bank stated that bad debt charges would be larger than originally anticipated. The equity price fell nearly 5%. It was a good day for the large shares as investors moved into a market that is widely regarded as undervalued when compared to its peers. The FT100 added 2.29% to close at 6032. On **Tuesday** BP announced a £16.8billion loss and slashed its dividend in half in order to invest in green energy. It also warned that Covid-19 would have a “sustained and enduring impact on the global economy and thus demand for energy.” The shares jumped 6%. Diageo held their dividend despite a slump in profits. Sales were worse than forecast and it did not offer guidance. The shares fell 6%. The F100 closed the day 0.05% higher at 6036 in cautious trading.

Gold mining stocks helped the FT100 rise 1.14% to 6104 on **Wednesday**. On **Thursday** the Bank of England kept rates unchanged at 0.1% and extended its bond buying program. In the report the bank predicted that unemployment is projected to be 7.5% (currently 3.9%) by the end of 2020 and that the recovery will depend on the evolution of the pandemic. It reiterated that it stands ready to adjust monetary policy accordingly. Comments about how long the recovery would be dented recent FT100 progress and the index lost 1.58% by lunch. The FT closed 1.27% lower at 6026. On **Friday** a strong US jobs report lifted the FT from negative territory, and it closed 5 points higher at 6032 for a weekly gain of 2.29%.

UK Manufacturing July PMI Final

Signs of economic recovery and expectations of client confidence strengthening led to improved sentiment among manufacturers during July. UK factory output grew at the fastest rate since 2017 as the PMI number rose to 53.3 versus 50.1 for June. However, jobs continued to be lost as demand remained subdued compared to before the pandemic.

UK Service Sector July PMI Final

The service sector recorded its strongest increase in business activity in five years jumping from 47.1 in June to 56.5. However, the recovery did not stop firms laying of staff at a faster rate than June. It does not mean the economic damage has been fixed it just means that countries are growing from a lower base level.

The United States

US Equities

Reports on **Monday** suggested that there was some progress over the weekend between Republicans and Democrats on the $1trillion stimulus package. The US manufacturing PMI came in at 54.2 for July versus June's 52.6 indicating that factories were expanding. This was better than expected and the new orders sub-index surged. Microsoft rose 5.64% on hopes of the TikTok deal. It was also revealed that TikTok's parent company ByteDance was planning to relocate from the US to London. The momentum from the previous session continued in technology and healthcare and the Nasdaq added 1.47% to close at a record high. The S&P and Dow added 0.72% and 0.92% respectively. The Vix remained below 25 but not making much ground in a mainly cautious market where most sectors ended lower led by utilities and real estate.
It was reported on **Tuesday** that factory orders had risen 6.2% in June which was above forecast and follows a 7.7% monthly jump for May. The Dow closed higher for the third day adding 0.62% while the S&P and Nasdaq both moved 0.35% higher. The Vix is now below 24 which is compatible with current market levels where an element of caution is required. Value stocks outperformed except for banks due to the low treasury yields. Earnings from Disney on **Wednesday** helped the Dow get off for its fourth straight day rise. The company announced strong growth at its new streaming services which offset the impact of coronavirus on its theme parks. The shares surged 10.32% helping the Dow to rise 1.39%. Johnson & Johnson announced a $1billion deal with the US Government to supply 100 million doses of its coronavirus vaccine if successful. PMI data showed the service sector in July had jumped to 58.1 from 57.1. However, like the UK and Europe the employment index fell as workers continued to be made redundant despite the economic expansion for very low levels. The S&P added 0.64% and is now 2% short of its February high. It has broken out of its recent range and is grinding its way back to the peak. The Nasdaq was the laggard adding 0.52% as banks industrials and energy led the sectors. The Vix dipped below 23. Airlines were higher after Senate Republicans said they supported additional federal aid for the industry.
On **Thursday** the White House threatened to act on its own if it failed to reach a deal with the democrats. Weekly jobless and continuing claims dropped by more than expected giving the equity market a small boost at the opening. The day ended with a fifth straight day of rising stocks led by technology. The Nasdaq crossed 11,000 rising 1% and the other two major markets rose 0.65%.
A golden cross formed on the Dow more than five months after a bearish technical pattern materialised. This is when the 50-day moving average trades above the 200-day moving average.
The well received jobs report on **Friday** was slightly pushed aside by US-China tensions and no movement on the stimulus package. It was a quiet day for the major markets with the Dow adding 0.27% and the S&P 0.06%. The Nasdaq lost 0.87% but still made a gain of 2.5% for the week similar to the S&P.

US Bonds

US yields ticked up to 0.57% on **Monday** a strong data from China showed factories are recovering. European PMI manufacturing data also pleased investors. On **Tuesday** Alphabet borrowed $10billion the biggest ever investment-grade corporate debt issue. Yields continue to fall to record lows with the 10-year hitting 0.51% as lawmakers remained divided over the stimulus deal. On **Wednesday** there was a flow of funds out of bonds and into equities which allowed the ten-year yield to rise to 0.55% and helped banking stocks.

On **Friday** safe-haven assets such as bonds were sold after the good jobs report and the ten -year fell to 0.57%

US Employment

Economists expected the US to have added 1.3-1.6million jobs in July. The June total was 4.8million. the 1.76million topped expectations and helped bring the unemployment rate from 10.5% to 10.2%.

European Markets

Spain's manufacturing sector returned to growth on **Monday** with a PMI reading of 53.5 which was better than forecast. However, jobs continued to be lost as firms operated below capacity and confidence about the future remained subdued. Italy also returned to growth and France produced another positive month, but new orders remain stagnant. Germany bounced back from 45.2 in June to a much improved 52 in July. Overall, the Eurozone activity reading was at 51.8 versus 47.4 for June. The Dax recovered most of the gains from the last session and added back 2.71% to close at 12,646.

A subdued day in European saw the Dax give back 0.37% on **Tuesday** as investors waited to see how Wall Street would perform. PMI data for July on **Wednesday** showed that the Eurozone service sector recorded their fastest growth in two years with a reading of 54.7 up from 48.3. It was mainly domestic demand that helped, and confidence is rising although jobs were still being cut. France announced an extra €250m in state support for the wine industry. The Dax gained 0.47% in a good day for equities.

On **Thursday** data showed that German manufacturing orders had surged 28% in June versus 10% in May. The Dax lost 0.54% as Wall Street opened nervously. More good news from Germany on **Friday** as it reported that industrial production had risen 8.9% in the month of June. The Dax added 0.66 % for a weekly gain of 2.93%

Asian Markets

A positive start to the week on **Monday** saw the Nikkei recoup a lot of the previous sessions losses and added 2.24%. The Caixin manufacturing PMI came in at 52.8 for July which was better than expected and confirms the Chinese economy is expanding across large and small factories. Shanghai rose 1.75% as it continued its steep climb. HSBC announced a plunge of 82% in first half profits and the shares slipped 1.86% dragging the Hang Seng 0.86% lower. There was green across the board in Asian trading on **Tuesday** as investors followed Wall Street. Japanese momentum continued and the Nikkei added 1.7%. Sony reported better than expected results boosted by its gaming business during lockdown. Shanghai was more subdued and rose 0.11%. Australia kept rates unchanged despite a state of emergency being declared in the State of Victoria. The central bank expects the recovery to be both "uneven and bumpy." The main issues on **Wednesday** were that the US package had still not been agreed and that the Caixin service sector reading for July showed a slower expansion than June. The index still came in at a respectable reading of 54.1 versus June's 58.4. Shanghai was unchanged and the Nikkei dipped 0.26% on profit taking after two days of solid gains. **Thursday** was another mixed day in Asia with Shanghai flat and the Nikkei losing 0.43%. Investors seemed to dismiss the levels being set on Wall Street. US-China tensions damaged markets on Friday and the Nikkei lost 0.39% and Shanghai 0.96%. Donald Trump issued executive orders banning US transactions with Chinese firms including Tencent. Nintendo jumped 2.5% after announcing a surge in profits. The Nikkei added 1.75% for the week and Shanghai 0.9%.

Commodities

Oil & Gold

Gold dipped to $1980 on **Monday** as strong PMI readings showed that factories in US, UK and Europe were bouncing back last month. Gold topped $2000 again on **Tuesday** as it became the world's favourite safe-haven as US treasury yields continue to fall. With the focus firmly on the fact that the dollar wasn't strengthening and real yields would be negative for some time gold hit $2054 on **Wednesday**. Oil prices fell back to $44.5 after four days of small gains as rising coronavirus cases again fuelled speculation about falling demand. In later trading Brent jumped to $45 after a drop in US crude inventories. On **Friday** gold had ticked up to $2074 as it appears hedge funds are buying after missing the recent move. Brent moved down to $44.5 on lack of stimulus news in the US.

Sterling & Dollar

The dollar index bounced on **Monday** morning to 93.445 after

hitting 93 in the previous week. Sterling slipped back to $1.308 after having its best month in a decade versus the dollar. This was mostly due to dollar weakness as opposed to sterling strength.
The Euro strengthened to $1.182 on **Tuesday** as the dollar rally fizzled out. Sterling remained unchanged. On **Wednesday** the dollar index slipped to 92.7 and sterling and the euro rose to $1.315 and $1.189 respectively.
The Bank of England said on **Thursday** they were considering negative interest rates but no plans to cut below zero. The pound rallied on the Bank's report which said the recession was less severe than anticipated and that the recovery would take longer. The pound traded at $1.316 and €1.11.
The dollar rallied on **Friday** as Morgan Stanley said that it was at its most oversold level in 40 years and that it was time to buy after falling 10% since March. The strong jobs number also helped the dollar. The pound was at $1.3056 and the Euro $1.178.

Closing Thoughts

Strong US jobs and hopes of a US stimulus deal helped the major markets rise last week. The push to fresh all-time highs in the US makes equities particularly sensitive to any bad news. Graham Crawford
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