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Privateoffice Weekly Market Update – 14th September 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

Another mixed week for global equity markets at the start of what is historically a difficult period for investors.

Major Issues

China-US tensions

SMIC, China's largest chip manufacturing, plunged 20% on **Monday** on reports that the US is considering imposing export restrictions on the firm. On **Tuesday** China accused the US of "bullying". It was also reported that President Trump is entertaining the idea of "decoupling" from China or refusing to do business with them.

Technology Sell-off

This occurred the week before last on Thursday 3rd September. Shares of Apple fell 8% dragging down the sector and the market in general. The value of the fall of Apple's shares was the same Unilever which is the UK's biggest company. The stock has still gained 10% over the month. Investors, especially retail, had piled into the sector as tech is perceived as a safe area in the pandemic. The Nasdaq fell 4.96% and the Vix shot up 25% to 31. The following day the Nasdaq fell 1.27%. It appears that SoftBank, the investment firm, which is now a hedge fund, was exercising successful call options and locking into gains thus a major factor causing the pullback. This will have then caused algorithms to sell and profit taking. The selling continued into last week taking the Nasdaq into correction territory (10% drop) by close of business **Tuesday**.

Covid-19

A study published in the Lancet showed that early results from Russia's coronavirus vaccine show no negative effects and elicit an antibody response. The virus has killed around 198,000 people in the US and the model used by the John Hopkins University suggests this could rise to between 410,000 and 620,000 by the end of the year. They suggest the worst is yet to come especially as states ease lockdown restrictions.

The United Kingdom

UK Equities

There were signs on **Monday** that despite the recent improvement in UK service sector growth investors were aware that there were continuing job cuts and that we are slightly behind Europe in terms of timing. Europe's August economic downturn maybe a sign of things to come in the UK. Equities were helped by a weaker sterling which allowed overseas earners to drag the FT100 higher. Travel stocks were lower following a spike in Covid-19 cases over the weekend. The FT100 closed 2.31% higher at 5933 with the FT250 adding 1.66%. On **Tuesday** sterling fell further allowing the FT100 to remain unchanged as other markets followed the Nasdaq lower. The FT250 also remained on the flatline. AstraZeneca shares dipped 1.05% and the recovered for a gain of 0.5% on **Wednesday** as the company said that late-stage trials of its Covid-19 vaccine had been put on hold due to a suspected serious adverse reaction to a participant. Shares in pub companies fell after the government announcement on gatherings of no more than six people. This had a greater effect on the domestic stocks trading on the FT250 which fell 0.17%. The FT100 benefited from more weak sterling and a Wall Street rebound and it rose 1.39%. Supermarkets led the FT100 lower on **Thursday** as Morrison's profits disappointed. AstraZeneca said it would know before the end of the year whether its experimental Covid-19 vaccine is effective. It hopes to resume trials soon. The FT100 and FT250 both fell 0.13%. The UK and Japan agreed in principle to a trade deal on **Friday**. The FT added 0.48% to finished the week 4.05% higher and for once outperforming its peers. The FT250 dipped 0.1% on Brexit worries but ended the week 1.26% higher.

GDP July

The economy grew by 6.6% in July, for its third consecutive month, as businesses continued to re-open. It is predicted that the economy will stall over the next couple if months and not get back to pre-Covid levels until late 2022. The economy remains 11.7% smaller than February and next sets of figures will be after furlough has ended.

The United States

US Equities

The markets were shut for "Labor Day" on **Monday**. On **Tuesday** there was still a buzz from recent figures showing that the service sector had grown at the fastest rate in 17 months during August. New orders and staffing levels were also seen to increase which provided hope that the economy was continuing to recover. However, the recent large falls in technology left investors confused and cautious. Tesla shares dropped 21% as it was not included in the new S&P500 index changes. It was reported that Apple will start producing 5G phones this month. This did not help the share which fell 7% as the technology sell-off continued taking the Nasdaq, which fell 4%, into correction territory. The index has fallen 10% in three sessions from its all-time high. The Dow and S&P lost 2.25% and 2.78% respectively but the Vix remained at 30 suggesting the immediate panic was over. The three-session skid ended on **Wednesday** as some hedge funds moved into the recently battered technology sector. Tesla rebounded 11% and Apple 4%. There was some selling into the close, but the S&P still gained 2%, the Dow 1.95% and the Nasdaq 2.71%. There is still a lot of cash on the side lines looking for opportunities to get back in. The selling in March was on a massive scale but the buyback is a lot slower for many investors. Weekly jobs figures on **Thursday** showed very little change from the week before. There was little improvement in the high levels of new and existing claims which is a growing concern that the recovery is stalling. Inflation appeared to be picking up at the factory gate as producer prices moved up 0.3%, a sign of increased demand. The failure of the Republicans to ger a stimulus bill through the Senate caused markets to swing wildly from gains to substantial losses. The Dow lost 1.45%. the S&P 1.76% and the Nasdaq 1.99%. Technology led the downturn, but all sectors suffered from the disappointment. Oracle's better than expected earnings due to more cloud-based products gave technology a boost on **Friday**. However technology selling continued and the Nasdaq fell 0.6% taking the week's loss to 4.1%, the worst since March. The Dow added 0.48% to end the week with a loss of 1.7% and the &P was unchanged for a weekly loss of 2.5%. It stayed above the 50-day moving average which was a good sign and but may be tested in coming sessions.

US Bonds

The ten-year opened at 0.69% on **Tuesday** well off the August low of 0.55%.
Like ourselves some investors are thinking that bonds are too expensive and the returns to low and are thus looking at other areas for growth.
The ten year yield moved to 0.71% on **Thursday** as money left bonds and headed to the recovering equity market.
However, the rejection of the "slimmed down" stimulus package saw bonds pick up and the 10 year was trading at 0.671% on **Friday**.

European Markets

Monday saw European investors considering the recent €100bn stimulus plan from France and the signs from the service sector that recovery had slowed during August. Germany reported that industrial production had risen for the third month in a row, but the recovery had lost a bit of pace. The Dax led Europe higher closing with a gain of 1.88%. Figures on **Tuesday** showed German exports jumping in a sign that the country is emerging from the slump and reinforces the belief that global demand is picking up. The Dax lost 1.01% as Wall Street continued to slide. However, the index added 2.07% on **Wednesday** as US stocks recovered some lost ground. **Thursday** was initially influenced by the ECB and thus trading was cautious and ultimately investors disappointed about lack of stimulus and a thus strong currency. The Dax lost 0.26%. **Friday** was a nervous trading day as investors waited for Wall Street to open and provide some direction. The Dax lost 0.05% but managed a weekly gain of 1.64%.

ECB Meeting

Lending and deposit rates were unchanged, at zero and minus 0.5%, respectively and the bond buying program left intact. It was hoped that the stimulus program would be increased to take some of the heat out of the strong Euro and help inflation to rise. The stronger Euro is damaging Europe's exports.

Asian Markets

Equities followed Wall Street lower on **Monday** despite data showing that Chinese exports had risen 9.5% year on year although imports declined 2.1% over the same period. It was the biggest jump in exports in 18-momths helped by medical supplies and computers. The drop in domestic demand is disappointing given that China eased restrictions earlier than other countries. Shanghai and the Nikkei fell 0.5% and 1.87% respectively. Positive rises of 0.8% and 0.72% for the Nikkei and Shanghai on **Tuesday**. The second reading of Japan's GDP was revised down from 27.8% to 28.1% contraction in Q2 versus Q2 last year. Asia followed Wall Street's decline with the Nikkei falling 1.04% and Shanghai 1.86% on **Wednesday**. Chinese inflation came in as expected showing that consumer prices were rising in a healthy manner but that factory gate prices were slowing which may indicate a lack of demand. Asia was mostly up on **Thursday** on the back of a strong US session. The Nikkei added 0.88%. However, Shanghai continued to remain under its recent cloud and declined 0.61%. Asia ignored a negative performance on Wall Street and instead looked at the S&P and Nasdaq futures markets which were positive on **Friday**. The Nikkei added 0.74% making a weekly gain of 0.88% and Shanghai rose 0.8% but lost 2.82% on the week+

Commodities

Oil & Gold

Brent slipped to $42.15 on **Monday**, its lowest level since July, as Saudi Arabia cut the price of its oil. This indicates weaker demand for crude in a world which there is still plenty of supply. Gold was steady at $1934. Brent fell to $40.22 on **Tuesday** on concerns that demand would fall after the end of the US driving season. The tech selloff saw investors panic to the US dollar and gold slipped to $1917. Gold shot up to $1951 as the dollar weakened on an equity rebound on Wall Street on **Wednesday**. This also dragged Brent up to $40.8. Brent dipped below $40 on **Friday** as data showed a surprise build up in US crude stockpiles. Gold remained around $1955 as frazzled nerves continued to dominate equity trading.

Sterling & Dollar

On **Monday** the pound was coming off the back of news that the Bank of England may have overestimated the strength of the UK's recovery. The risks lie on the side of weaker growth and more stimulus may be needed. The dollar was looking to add to gains made on news that the ECB was uncomfortable with the Euro's rise. The pound was also affected by Brexit talks and the belief that there will be "no-deal". The pound slipped to $1.322 and €1.1167.
The dollar index inched higher on **Tuesday** to 93.09 and sterling slipped to $1.3109. Leaked diplomatic cables showed that the EU believes that the UK will not do a deal until the last minute in order to force a "trade off" on the major issues.
Wednesday saw sterling fall dramatically to $1.2908 as the UK internal market bill was published. However, it rallied to $1.2996 as the EU stated they would not walk out of talks. The rebound on Wall Street saw investors move out of the safe-haven dollar on **Thursday** and allowed sterling and the Euro to move back up. Sterling held just above $1.30 and the Euro at $1.18. The Euro statement, with no extra stimulus saw the Euro rise to $1.881. Sterling slipped to $1.293 (€1.084, a six-month low) on Brexit worries. ECB's Christine Lagarde also talked of a strong rebound in the Eurozone economy and that helped Euro strength. Sterling was trading at $1.284 and €1.1084 on **Friday** as investors factored in a tough Brexit stance from the UK.

Closing Thoughts

The negatives on the horizon are the US election, renewed lockdowns, economic weakness, markets hungry for stimulus and ongoing US-China tension. September and October are statically volatile months with historically poor returns. Could any of those factors, or a combination, lead to a renewed downturn?

It is worth remembering that technology earnings are expected to be flat in Q3 2020 versus Q3 2019. This is way ahead of expectations for any other sector in a year that has been hugely damaging to the global economy. This is maybe why they attract such a premium and are also causing such confusion amongst investors.

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