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Privateoffice Weekly Market Update – 12th October 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

Global markets spent another week being hit with medical, political and economic problems. However, the “bulls” tried to see through the issues and pushed equities higher, much to the dismay of the “bears”

The United Kingdom

UK Equities

A survey on **Monday** showed that retail footfall was 31% lower than a year ago. The services PMI figure for September came in at 56.1 down from August’s five year high of 58.8 but better than forecast. The F100 gained 0.69% to close at 5,942 and the FT250 added an impressive 1.08%.
Figures on **Tuesday** showed that the UK construction industry had seen its biggest jump in new business since the Covid-19 lockdown was lifted. The FT100 was subdued, adding 0.12%, but the FT250 jumped 1.22% as investors focused on domestic stocks and away from stocks with international exposure. **Wednesday** saw a set of upbeat earnings from Tesco despite a Covid-19 bill for £533m covering sick pay, protection and staff isolation. Mortgage approvals hit a four-year high and house prices for September were 7.5% higher than a year ago, the strongest rise in four years. The weaker oil price held back the FT100 and it closed unchanged as did the FT250.
Markets had a stronger day on **Thursday** as Wall Street rebounded. The FT added 0.81% and the FT250 continued to outperform with a 0.91% jump.
GDP figures reported on **Friday** showed that the UK economy grew by 2.1% during August which was lower than the 4.4% expected. It was the fourth month of growth but the slowest since the pandemic lockdowns. July growth was 6.4%, June 9.1% and May 2.7%. the fear is that the economy may be running out of steam just as cases are surging in a second wave. The FT rose 0.65% for a weekly gain of 2.27% and the FT250 jumped 0.71% for an impressive weekly gain of 3.92%.

The United States

US Equities

Hopes of a stimulus package after Trump tweeted from hospital that he wished for an agreement pushed equities higher in early **Monday** trading. Technology stocks were looking to bounce from the previous session which had seen the Nasdaq drop 2.2% due to concerns over higher taxes and tighter regulation should the Democrats win the election. Facebook lawyers have prepared a document designed to rebut calls to break up the social media giant. The US Services index rose to 57.8 in September, versus 56.9 for August, which was better than expected and shows the consumer side of the economy continuing to see increasing demand and importantly more jobs being created. Optimism regarding the Presidents health helped the Dow and S&P added 1.68% and 1.8% respectively. The S&P has again risen above the 50-day moving average (dma). The Nasdaq added 2.32% and technology came back into favour. Even with the recent rise the sector remains on lower multiples than the dot-com era and interest rates are significantly lower. It was a broad rally that saw all sectors rise led by energy and small caps. On **Tuesday** there appeared to be a feeling that the uncertainty surrounding the election was being replaced by a belief that the Democrats will sweep to victory. Equity markets usually favour the Republicans but the current uncertainty regarding the actual vote and potential disruption, should it be close, is acting as a weight on the market. Federal Reserve Chair Powell called for more help from Congress and said there was a low risk of "overdoing it." He said that taking a foot off the gas could lead to unnecessary hardship for households and a weak recovery. President Trump completely changed the direction of markets when he tweeted that he had asked his representatives to not negotiate the stimulus package until after the election. The Dow reversed a 200-point gain to fall 375 pomits,1.34%. The S&P and Nasdaq also reversed and lost 1.4% and 1.57% respectively. Airlines and cyclicals fell as investors ignored thoughts that this may be a Trump "art of the deal" bargaining strategy. Trump later tweeted he would pass a series of independent stimulus measures including a new round of stimulus cheques.

It became clear on **Wednesday** that the President was not prepared to pay for several social bills that made up part of the Democrats stimulus plan. The market seemed happy that a stimulus package would come at some point but unsure if this would be before or after the election. The president then suggested that a smaller more targeted bill may be passed immediately which allowed the equity markets to jump in early trade. The Dow had its best day since July and closed 1.91% higher with S&P and Nasdaq both adding around 1.8%. Techs continued to be volatile but helped lead the market higher followed by materials, industrials and cyclicals as sentiment picked up amongst investors. The S&P is again above the 50 dma as investors try to see some clarity in all this confusion. Some bets are undoubtably being placed on a clean and undisputed election victory and others remain sceptical hence the Vix remaining at 28. A range is being establish and time will tell which way we break.

On **Thursday** McDonald's shares jumped after an upbeat report and dividend increase. There was M&A activity in the financial sector and IBM said it was floating off technology services to focus on cloud growth. President Trump signalled stimulus negotiations were going well as weekly jobs figures illustrated that weekly US unemployment claims remain worryingly elevated above 840,000. However, Nancy Pelosi rejected the idea of a smaller aid package and standalone payments. Investors focused on poor data heightening the chance of fiscal stimulus and hopes of an outright election victory. This allowed the Dow and Nasdaq to add 0.43% and 0.5% respectively. However, it was the broader based S&P that outperformed adding 0.8% as cyclicals and smaller stocks led the pack.

A newspaper report on **Friday** suggested AMD was in advanced talks to buy speciality chipmaker Xilinx. This spurred the technology sector into to take up leadership after several sessions when this has been done by the more cyclical stocks. Amazon, Apple and Microsoft led the way as the Nasdaq jumped 1.39% for a weekly gain of 4.6%. The Dow and S&P moved up 0.57% and 0.88% for weekly gains of 3.3% and 3.8% respectively. The Vix slipped to 25. The mood was helped by further stimulus talk and positive talk from the President.

US Bonds

The 10-year ticked higher to 0.75% from 0.71% on **Monday** morning on hopes the President would be discharged from hospital during the day. The ten-year moved to 0.785% on **Tuesday** as investors speculated that the Democrats could win the Presidency and have a majority in the house and senate. Thus, allowing a larger fiscal stimulus to be passed. A large stimulus would be inflationary and increase the massive US deficit which is bad for bonds hence investors tend to sell and yields move higher. The cancellation of the negotiations for a large stimulus bill and then possibility of smaller bill saw yields move from 0.79% to 0.76% on **Wednesday**. Money moved out of bonds and into equities on **Friday** pushing the yield back to 0.79%.

European Markets

PMI data on **Monday** showed that the Eurozone's service sector weakened during September. The reading was a contraction of 48 versus 50.5 in August as activity struggled due to new restrictions imposed by government. Spain was especially hard hit (42.4 v 47.7)) and France contracted for the first time in four months (47.5 v 51.5). The

Dax gained 1.1% helped by better service sector figures in the US. **Tuesday** was a lack of news day in Europe, so the Dax followed the US Monday session and rose 0.61%. Fresh data on **Wednesday** showed that German industrial production had declined after three months of growth as Berlin introduced stricter closing times for businesses. A positive set of results from Germany's Dialog Semiconductor helped offset worries. The Dax closed unchanged. Europe opened stronger on **Thursday** on reports Eli Lilly was seeking clearance from the US FDA for emergency authorisation of its Covid-19 antibody treatment. The Dax added 0.88% as Wall Street continued to rally. On **Friday** the Dax managed a small gain of 0.07% making a total of 2.66% for the week.

Asian Markets

Equities responded to reports of President Trump's improving health on **Monday**. China remained shut for a holiday which ends on the 9th. The Nikkei added 1.23%. Japanese PMI services index came in at 46.9 contracting for the eighth month in a row but at the slowest pace during that period. Asian markets were higher on **Tuesday** as the Bank of Australia kept rates steady. Technology helped the Nikkei add 0.52%. More confusion over the US stimulus package on **Wednesday** saw most Asian markets trade around the flatline. Asia was higher on **Thursday** as it followed Wall Street with the Nikkei adding 0.96%. China opened on **Friday** and the Caixin survey data showed that services continued to grow with a solid reading of 54.8. Shanghai surged 1.63% but there was some profit taking in Japan and the Nikkei lost 0.12% but gained 2.59% over the week.

Commodities

Oil & Gold

Oil prices rebounded strongly on **Monday** after a 4% fall in the previous session. Investors continued to monitor the US President's health and Brent jumped 4.05% to $40.85. Gold held around the $1895 level supported by stimulus hopes and the President's health.
Stimulus hopes helped Brent move 0.5% higher to $41.49 on **Tuesday**. Brent responded to positive market sentiment on **Thursday** and rose to $42.6.
Confidence in global markets and recovery were illustrated in the oil price with Brent moving to $43.4 on **Friday.** Gold continued to trade off a weaker dollar and stimulus hopes and moved to $1935.

Sterling & Dollar

The UK and Europe have agreed to a fortnight of talks before the critical European summit on October 15th. A deal is unlikely to be struck ahead of this but both sides want to narrow their differences to allow leaders to consider the remaining trade-offs. This would lead to further talks at the end of the month and the deal ratified by the end of December. Fishing rights remain a major sticking point. Sterling was trading at $1.28 & €1.1008 on **Monday**. Goldman Sachs have said that a deal is close so buy the pound. On **Tuesday** the dollar had slipped to $1.29 versus sterling as fresh stimulus talk weakened the currency.
The cancellation of stimulus negotiations and concerns over the Brexit deal saw sterling drop to $1.289 on **Wednesday**. Risk-on sentiment on **Thursday** saw the dollar weaken to $1.296. Sterling moved to $1.299 on **Friday** as risk on sentiment continued to weaken the dollar against major currencies.
Traders are assuming an EU trade deal will be done and a lot off this has been priced into the pound. The main issue is now the US election and a Biden victory, and large fiscal package will probably weaken the dollar.

Closing Thoughts

With earnings season starting tomorrow investors will finally have something to analyse and digest. It will be some relief from the political show that has been moving markets recently. Maybe the focus will go back to fundamentals and attempt to see beyond Covd-19.

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