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Privateoffice Weekly Market Update – 19th October 2020

Investment and Wealth Management
Estate Planning - Private Client Services

Welcome

All markets struggled for both momentum and direction last week. This was mainly due to confusion over the economic data, US stimulus measures, general uncertainty over Covid-19 and the US election.

Global Issues

Global Economy

The IMF turned slightly more positive on the global economy for this year but warned of a long, uneven, and uncertain recovery. The economy is expected to contract by 4.4% which is better than the 4.9% forecast in June.
It expects the US to only shrink by 4.8% and not 8% as previously feared. China is expected to grow by 1.9% and the UK to contract 9.8% and not 10.2%.
In a separate announcement the IMF urged governments not to withdraw their Covid-19 economic support packages too quickly.

Covid-19 Second Wave

The US is entering the much-feared virus “second wave” as we head into winter. Cases had been as low as 30,000 per day in early September but, like much of Europe, have surged to around 50,000. WHO said that Europe’s second wave raises great concern but is “not” as bad as April’s peak because despite daily cases tripling the death rate is 80% lower.

The United Kingdom

UK Equities

Indices opened slightly higher on **Monday** as traders watched for more stimulus news in the US but were aware of rising cases and further restrictions. It was another weak day for the dollar, this pulled down the overseas earners and the FT100 lost 0.25%. However, the FT250 managed to add 0.52%. The unemployment figures released on **Tuesday** showed that the level had moved up from 4.1% unemployment to 4.5%. The pace of the increase was the fastest since the financial crisis. Fears of a second lockdown hit the bulk of UK companies with the FT100 falling 0.53% and the FT250 giving back 1.53% after a series of recent gains. **Wednesday** was another down day for the FT100 as sterling strengthened and dragged down the index by 0.58%. The FT250 continued to outperform and added 0.52%.
Rising virus cases and fading stimulus hopes in the US pulled the FT100 2% lower in early **Thursday** trade. There was a slight recovery but the FT100 still lost 1.73%. The FT250 continued to outperform losing only 0.63%.
The FT100 jumped in early **Friday**

trading in response to Wall Streets intra-day trading turnaround. The FT added 1.87% for a weekly loss of 1.22%. The FT250 was flat but gained 1.12% on the week.

The United States

US Equities

The technology sector got off to a good start on **Monday** as various broker upgrades were produced. Investors were trading off the hope that a stimulus may not be immediate but would be forthcoming after the election due to Joe Biden being well ahead in the polls. The market must weigh this potential Biden stimulus with the fact that he is looking to raise minimum wages, increase taxes and tighten regulation.
The weaker dollar is helping international stocks, and this pushed the Dow in early trading. The S&P moved further away from the 50 day-moving average which, in textbook fashion, it tested four times before finally making the break, upwards in this instance. Energy, materials, and industrials were the laggards as technology and healthcare pushed the major markets higher. There was little news on the stimulus package hence the sector rotation.
Apple rose 6.5% ahead of its new iPhone launch. Amazon added nearly 5% ahead of its two-day sales event. These gains helped the Nasdaq to a 2.56% gain with a large amount of new individual highs across the index. The Dow and S&P added 0.88% and 1.66% respectively.
JP Morgan and Citigroup kicked off earnings season on **Tuesday** by beating profit and revenue expectations. The banks set aside less for loan losses suggesting they are largely done for the pandemic which is taken as appositive. However, Johnson & Johnson and Eli Lilly announced a pause in Covid-19 vaccine trials highlighting the challenges of producing a cure for the deadly infection. Experts did not regard this move as unusual or uncommon if under normal circumstances. Apple's launch was deemed a success, but the stock succumbed to some profit taking and this was a heavy weight on the major markets due to its size. The Dow gave up 0.55%, the S&P 0.63% and the Nasdaq 0.1%. Re-opening sensitive, travel and cyclical stocks were the laggards as investors were concerned that parts of the "new" future, such as business travel, will be altered for ever.
On **Wednesday** Goldman Sachs reported profits 94% higher than the same quarter last year due to the high level of bond trading. Producer prices were reported to have shown a rise of 0.4% over the year showing that there is healthy demand and some pricing power in the economy. Sectors played out another "swap over" of laggards and leaders as tech gave up some gains and energy and materials, two of the more beaten down sectors, moved higher. The Dow and S&P gave up 0.58% and 0.66%. The Nasdaq was the underperformer and lost 0.8%. The Vix moved up to 27.49 as nerves increased ahead of the election.
Thursday was the day that investors began to realise that the pandemic could still be raging well into 2021 and that economic prospects would be damaged. However, this did not stop a flurry of positive brokers' notes and price target increases for Tesla, Netflix, Zoom, Microsoft, Goldman Sachs and Dell.
Poor data in the form of increasing weekly jobless claims and falling manufacturing activity in New York were effectively cancelled out by falling continuing claims and a jump in the Philadelphia Fed factory index.
The Dow recovered a 320 point fall to lose only 20 points, 0.07%, in a strong intra-day recovery. The S&P and Nasdaq also recovered large losses to lose only 0.15% and 0.47% respectively. Market internals were strong with buys topping the sales by a ratio of 2 to 1. Dollar strength due to economic recovery fears over a second wave is hitting the large international US stocks.
Retails sales, reported **Friday**, jumped 1.9% in September which was better than the 0.7% forecast and 0.6% during August. This was the fastest pace in three months and a market pleasing number. The influential consumer sentiment indicator ticked higher for October. On the negative side industrial production declined for the first time in four months as factory activity slowed. This figure was a surprise for economist who had predicted mire steady growth. Pfizer said it could be ready for an Emergency Use Authorisation application by late November. Europe's top aviation regulator said Boeing's Max jet is safe enough to return to service.
Healthcare led the sectors in another day when the market was whipped around as algorithms reacted to headlines.
The Nasdaq ended with a daily loss of 0.35%, the fourth day in a row, but still managed to add 0.83% for the week. The S&P was unchanged and added 0.22% for the week. The Dow ended with a gain of 0.39% for a flat week. The Vix remained at 27.4.

US Bonds

The ten-year opened at 0.76% on **Tuesday** after the Columbus Day holiday.
On Wednesday the ten year fell to 0.71% on **Wednesday** as investors turned more cautious due to rising virus cases.
The 10-year hit 0.69% on **Thursday** on fears that the US economy recovery was stalling after employment and manufacturing data was released. Jobless claims hit their highest level since March just as stimulus talks appeared to breakdown.

European Markets

There was a report in the Financial Times on **Monday** that European Union regulators were drawing up a list of 20 large internet companies that will face new and tougher rules aimed at curbing their market share. The Dax gained 0.67%.
The influential ZEW survey was produced on **Tuesday** and showed that German economic expectations have plummeted in October after going up in the previous two months. The Dax lost 0.91%.
With no major data on **Wednesday** the Dax drifted and remained unchanged.
Increasing lockdowns across Europe affected sentiment on **Thursday** and hauled the Dax back 2.5%.
It was reported on **Friday** that he pace of August's Eurozone export growth had slowed after four straight months of growth. The Dax followed Wall Street and added 1.62% for a weekly loss of 1.22%.

Asian Markets

The Chinese central bank passed a law on **Monday** that makes it cheaper for traders to "short" the yuan and this saw the currency weaken against the dollar and push equities 2.64% higher. The Nikkei dropped 0.26% despite the central bank saying that it was ready to ease rates further and had tools to cushion the pandemic pain.
Chinese trade figures on **Tuesday** showed a large increase in imports as strong domestic demand, supported by government, sucked in goods. The trade gap with the US was also seen to narrow as China kept in line with "phase one" of the trade agreement. Exports were also better than expected illustrating good global demand. Figures also showed that auto sales in China were 13% greater than September last year. Shanghai added 0.04% and the Nikkei 0.18%.
Markets were negative across Asia on **Wednesday** with Shanghai losing 0.53%. The Nikkei bucked the trend in a quiet day by adding 0.11%. Rising Covid-19 fears were weighing on investors' as increasing shutdowns across Europe spooked sentiment.
With parts of Europe shutting down it was no surprise to see the Nikkei fall 0.51% and Shanghai 0.26% on **Thursday**. Chinese producer prices fell 2.1% over the year which suggests that companies are struggling to regain pricing power. Taiwan Semiconductor raised its 2020 revenue forecast saying that the pandemic had increased demand for its high-end chips used in 5G phones and high-performance computing related applications.
The Nikkei lost 0.41% on **Friday** while Shanghai gained 0.13% in a quiet end to a week where virus concerns dominated traders thinking.
Opposite returns with the Nikkei losing 0.89% on the week but Shanghai gaining 2.02%.

Commodities

Oil & Gold

Both were steady at $1930 and $42.5 on **Monday** after large upward moves over previous sessions.
Strong Chinese crude imports helped support the oil price on **Tuesday**.
By **Friday** oil was still trading at $42.5 in a reflection of the two way pull which is currently keeping equities in a trend. Gold was also relatively unchanged at $1911. Bad news is being cancelled out by some good economic data as well as hope and belief in a government supported recovery. This leaves traders in all markets unsure of which way to go.

Sterling & Dollar

The dollar was having a torrid time on **Monday**. The index had fallen in the previous session to 92.9 on hopes of a stimulus and that its safe-haven status would not be required. However, it drifted back to 93.1 as talks seemed to break down yet again. Goldman Sachs believes the dollar index will fall to the 2018 lows of 89 when a vaccine is produced, and Joe Biden becomes President. The risks appear skewed to dollar weakness. Sterling ticked up to $1.306.
Sterling slipped to $1.297 on **Tuesday** as Europe's top negotiator said there was little chance of the two sides entering a decisive "tunnel" negotiation.
The trend continued into **Wednesday** and was helped by a stronger dollar due to pauses in vaccine testing. Sterling hit $1.287. The dollar is stronger when progress with the vaccine is negatively affected and vice-versa. However, speculation that a European trade deal would be done pushed sterling back to $1.302 in a volatile trading day.
The dollar edged higher on **Thursday** to $1.291 as global coronavirus cases surged and as European leaders met to discuss Brexit.
On **Friday** Dominic Raab claimed that the UK was close to a Brexit deal. The pound only ticked up to $1.292 as the UK still must provide concessions. A few hours later Boris Johnson signalled a no-deal Brexit was on the horizon and the pound fell to $1.286. It was then confirmed negotiation will continue this week and sterling settled at $1.291.

Closing Thoughts

There remains a huge amount liquidity in the global monetary system with governments and central banks continuing to support their economies. Although virus cases are surging in a supposed "second wave" investors are still believing vaccines to ease the effects of the virus are on the way. A Biden victory and resultant large fiscal and infrastructure package is being "baked" into prices and helping support the days when the general sentiment is poor as we saw on **Thursday**. Investors remain reluctant to sell in this environment and there are plenty of "wounded bears" who are looking for dips to buy. We are almost through the two traditionally worst and volatile performing months of the year for equities. The next hurdle is the US election which is another speed bump in the overall economic recovery from the virus induced recession.

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