Heartwood
Investment Management

Weekly Bulletin

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Weekly Bulletin: Recovering financial markets pause for breath

In a timely reminder that recoveries are rarely linear, last week saw stock markets falter slightly in most major regions. It is worth remembering that this has been the best rally from a stock market low in 75 years, so some easing off was likely.

- In recent weeks, the market mood had appeared to focus primarily on the welcome support of central banks. However, last week this shifted to include fears of a ‘second wave’ of COVID-19 infections. History tells us that these pauses for breath do come after an initial stock market rally, and over the coming weeks we are likely to witness an ongoing tug of war between competing positive and negative influences across financial markets.

- In the US, the central bank confirmed that its support remains fully forthcoming, with Chair Powell remarking that Federal Reserve (Fed) policymakers are ‘not even thinking’ about raising interest rates. He also confirmed that the Fed would continue to use its emergency powers without restraint until economic recovery appeared assured. The Fed will buy $120bn of financial assets per month for the foreseeable future in an effort to ward off permanent economic damage.

- Elsewhere in the US, President Trump continues to fall behind in the polls, ahead of November’s presidential election. His challenger, Joe Biden, does represent some risks for financial markets, least not in his desire to roll back some of Trump’s corporation tax cuts. Investors will be watching the polls very closely indeed.

- Meanwhile, high-frequency economic data around the world continues to show signs of life, albeit from extremely low levels. This includes improvements in indicators like car sales in China and US business loans, as well as nascent signs for optimism in the rate of US jobless claims.

- However, backwards-looking data in the UK showed that the economy shrank by more than a fifth in April. This effectively wiped out 18 years of growth in a mere two months (March and April), and delivered the worst economic contraction since 1709. It was perhaps inevitable that the UK would be among the hardest hit of developed market economies due to its heavy reliance on the services sector. The road back to economic health will be a long one, but in the near term, more economic stimulus is likely from the Bank of England this week.

Weekly market moves

- Stock markets gave back some of their gains over the week, with even the US market (which has led the way since the lows of March), stepping back.

- Sterling fell back against traditional ‘safe-haven’ currencies such as the US dollar and the Japanese yen, as investors moved towards a more risk-averse approach.
- In keeping with this slight risk-aversion, gold and government bond prices rallied. Bond yields (which move inversely to their prices) fell.

What to look out for this week

- The Bank of England meets this week, and is expected to do inject another £100bn of new money into the money supply (known as quantitative easing or ‘QE’). This will take the Bank’s total QE response to £750bn.
- Policymakers at Japan’s central bank also meet this week, but no changes are expected.
- As the week draws to a close, EU leaders will discuss both the region’s long-term budget and the proposed $750bn recovery fund intended to tackle the impact of COVID-19.

	Index Levels	Last Week	Month-to-date	Year-to-date
Equity				
MSCI United Kingdom	1,730.0	-5.6%	0.6%	-18.5%
MSCI United Kingdom Mid Cap	1,049.3	-6.9%	-0.9%	-20.1%
MSCI United Kingdom Small Cap	353.1	-7.0%	-0.1%	-21.9%
MSCI World (GBP)	1,657.6	-3.1%	-0.6%	-1.9%
S&P 500 (GBP)	3,041.3	-3.3%	-1.4%	0.4%
MSCI Japan (GBP)	952.1	1.3%	-0.2%	-0.5%
MSCI Europe ex-UK (GBP)	1,257.2	-4.3%	1.0%	-5.7%
MSCI Pacific ex-Japan (GBP)	1,430.7	-1.6%	5.5%	-8.9%
MSCI Emerging Markets (GBP)	56,723.7	-0.1%	4.7%	-5.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,438.0	2.4%	-0.4%	9.8%
BoA Merrill Lynch Index-Linked Gilts	627.1	2.0%	-0.9%	10.8%
BoA Merrill Lynch £ Corporate	455.7	1.0%	1.1%	2.7%
Commodities				
Oil (West Texas Intermediate, GBP)	$36.2	-6.9%	0.4%	-37.4%
Gold (GBP)	$1733.5	4.5%	-1.1%	20.9%
S&P / GSCI (GBP)	1,593.8	-2.7%	0.0%	-35.0%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.