

Morning Meeting

15 June 2020

	Index	+/-	% change
FTSE 100	6105.2	28.5	0.5
FTSE All-Share	3379.8	16.2	0.5
DJ Industrial Average	25605.5	477.4	1.9
S&P 500	3041.3	39.2	1.3
NASDAQ Composite Index	9588.8	96.1	1.0
Nikkei Japan 1000 Index	1877.8	-21.0	-1.1
Hang Seng Index	24301.4	-178.8	-0.7
EURO STOXX 50 (EUR)	3153.7	9.2	0.3
Switzerland SMI (PR)	9796.4	-32.2	-0.3
France CAC 40	4839.3	23.7	0.5
Germany DAX (TR)	11949.3	-21.0	-0.2

Matrix Winners	Price	+/-	% change
Pearson PLC	573.0	60.0	11.7
Centrica plc	43.2	3.0	7.6
Melrose Industries PLC	118.6	7.4	6.7
Carnival plc	1269.0	79.0	6.6
Informa Plc	460.6	26.4	6.1

Matrix Losers	Price	+/-	% change
Cairn Energy PLC	116.4	-3.7	-3.1
Essentra plc	303.0	-9	-2.9
BAE Systems plc	504.8	-11.8	-2.3
Urban&Civic PLC	227.5	-5	-2.2
Babcock International Group PLC	368.9	-7.7	-2.0

Stocks Hitting Relative High

Rio Tinto plc

-

Currencies		+/-	12 month range	
£:\$	1.254	-0.01	1.15	1.33
Y:\$	107.330	0.69	102.55	112.09
E:£	1.115	0.00	1.07	1.20
E:\$	1.125	-0.01	1.07	1.14
10 Yr Bond	Yld %	+/-	-3 months	-12 months
UK	0.21	0.03	0.25	0.96
US	0.70	0.05	0.85	2.13
Germany	-0.44	0.00	-0.74	-0.21
	Price (p)	+/-	12 month range	
Investec plc	167.7	0.95	128.8	518.6

Sector Winners	% change	Mkt Wt
FTSE All-Share / Technology Hardware & Equipment - SEC	2.4	0.1
FTSE All-Share / Real Estate Investment Trusts - SEC	2.28	0.1
FTSE All-Share / General Industrials - SEC	1.94	1.2
FTSE All-Share / Electricity - SEC	1.9	0.7
FTSE All-Share / Gas, Water & Multiutilities - SEC	1.4	2.6

Sector Losers	% change	Mkt Wt
FTSE All-Share / Aerospace & Defense - SEC	-0.9	1.6
FTSE All-Share / Health Care Equipment & Services - SEC	-0.7	1.0
FTSE All-Share / Food & Drug Retailers - SEC	-0.7	2.1
FTSE All-Share / Financial Services - SEC	-0.6	4.2
FTSE All-Share / Electronic & Electrical Equipment - SEC	-0.3	0.8

Stocks Hitting Relative Low

-

-

Companies discussed in Morning Meeting

UK Equities

Bunzl

Company Results

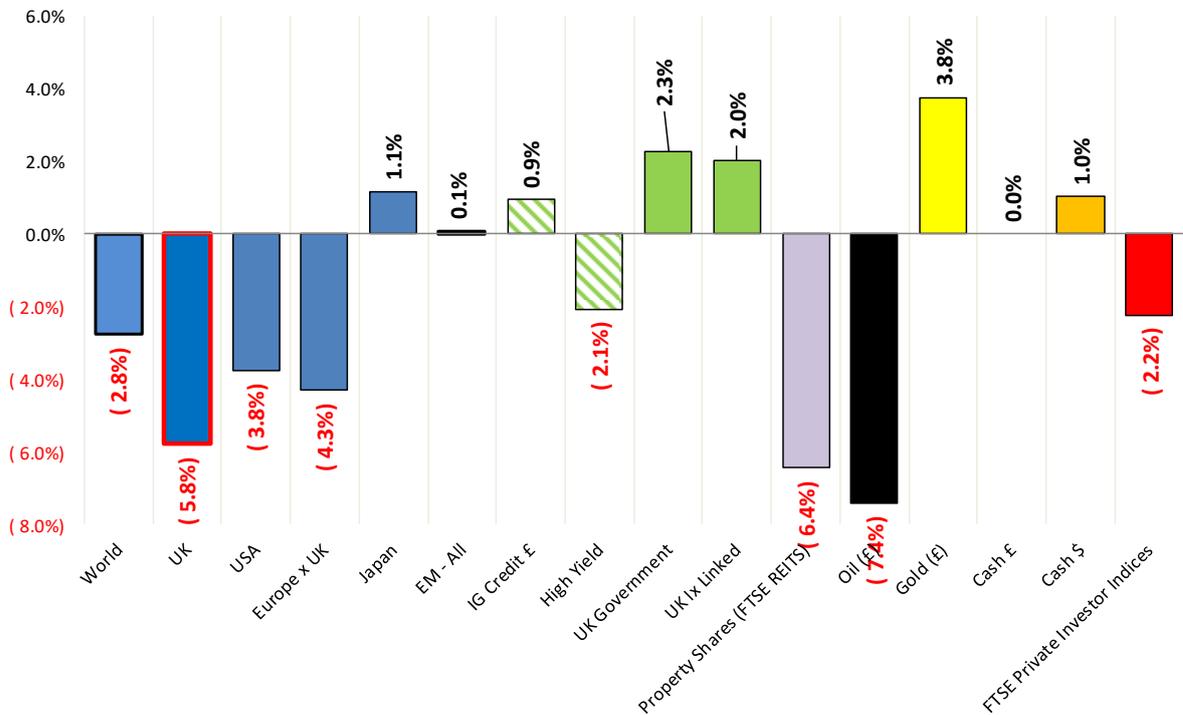
Friday

- US equity markets closed the week on a positive note, rising by 1.3%. However, this only partly reversed Thursday's 6% fall, so that for the week as a whole US markets were down by 4.7% in dollars, slightly worse than global markets, which fell by 4.5% in dollars over the course of the week.
- Some of the reason for the fall can be attributed to rising concerns about an uptick in COVID cases in some southern states that have been quick to ease lock-downs, but the cause was probably just as much a combination of profit taking after recent rises with a recognition that the Federal Reserve's message of unequivocal long term policy support is a mixed blessing – since by implication the situation must be bleak.
- European markets (UK +0.5%, Euro-Stoxx +0.3%) were up by less than the US but they had been less hard hit on Thursday, when a good portion of the US weakness happened after-hours for them.

Looking at the picture for the week:

- It was a broadly risk-off week. With sterling weakening by over 1% (from just under \$1.27 to just over \$1.25) the 4.5% fall in global equity markets in dollar terms translated to a 2.8% fall for a sterling investor.
- The VIX index reflected the sudden risk-off turn in mood fully, surging from 24 at the end of last week to 40 on Thursday, it closed at the still high level of 36, a level it last saw for more than a day at the end of April.
- UK equities performed worst of the developed markets, falling by just under 6%, again a victim of the cyclical, high exposure to financials and Far Eastern sensitivity of our equity markets. Factors which have made the UK by far the worst performing DM this year, with the UK down by 18% year to date, whereas the next-worst performers, Europe x UK and Japan, are both only down by 6% in sterling terms.
- In Fixed Income US Treasury yields rose by 3 basis points on Friday, but fell 0.2% to 0.7% over the week. UK 10-year Gilt yields and German 10 year Bund yields both fell by 0.15% on the week to end at just over 0.2% and (-0.44%) respectively.
- Credit markets saw spreads, with US\$ High Yield spreads up by 3/4% over the week to 6.1%, whilst Investment Grade spreads rose by 0.1% to 1.6%. Since the basis (US Treasuries) fell by more than the IG spread widened, IG bonds gave a marginally positive return for the week.
- Currency markets saw the dollar trade-weighted dollar weaken by around 1% as its strength against sterling was outweighed by its weakness v the yen (-2%). \$/€ and \$/yuan were almost unchanged, with the yuan holding rock-steady at \$/CNY 7.08.
- Gold ended the week at \$1730 / oz, up \$50, (2.7%) on the week. WTI oil fell \$3 over the week to just over \$36 / barrel.

Asset Class Performance (£TR) 05-Jun-20 - 12-Jun-20



Key Events over Last Week

- US
 - focused on internal issues and congressional hearings around the causes and implications of riots in the wake of the killing of George Floyd.
 - FOMC meeting indicated will probably hold rates flat until the end of 2022.
- Europe
 - Christine Lagarde and ECB officials defended their policies, which have increased bond purchase authorisations by €1.3trillion since the COVID outbreak, to the Governing Council.
 - UK GDP – 20% shrink rate, versus previous month, in April.
- Far East
 - Tensions on Korean peninsula rise – hotline cut off.

This Morning:

- Over the weekend, Kristina Georgieva, MD of the IMF, said it is likely to revise down growth forecasts from current estimate of (3%) for 2020, when it publishes its update on June 24th.
- **Chinese data – weaker than expected** The National Bureau of Statistics released Chinese industrial production and retail sales data for the month of May this morning, with both continuing to improve modestly. Chinese industrial output rose by 4.4% (yoy) in May, an improvement on April's +3.9% (yoy) reading. The recovery in retail sales has not been quite as robust. Sales values are still contracting on an annual basis, down 2.8% in May compared with May 2019, albeit an improvement from -7.5% (yoy) in April.
- Weighing more on markets this morning are fears of a second wave of COVID. In China, on Friday the 12th a new COVID outbreak was reported in Beijing following 55 days with no new infections. Most of the 78 new cases in Beijing (as of June 14th) were linked to the Xinfadi grocery market which is the largest in China, covers more than 80% of Beijing's grocery sales and is located right beside Beijing's high speed railway station. Over the weekend, the authorities shut down six food markets and returned c. 10 residential areas in Beijing to

lockdown with schools closed again after only a few weeks back. Subway usage in Beijing was down by 19% points on Saturday the 13th compared to the previous Saturday.

- Asian Markets see Japan off 3.5%, Hong Kong off just over 2% and China off 1%.
- The Chinese yuan is off over 1c v \$, trading at just under CNY/\$ 7.10, as the risk off currencies, the dollar and the yen strengthened.
- Europe. / Futures off 2%, US futures off 2.5%.
- Commodities and Autos weakest in Europe, as oil markets are also softer. Brent -3.7% overnight at \$37.26/bbl & WTI -4.8% to \$34.51/bbl

COVID Update

- UK opening of shops selling non-essential items today.
- **The virus continues to be more widespread across the globe, with early signs of a second wave in the US.** While the number of countries with averaging more than 100 infections/day has dipped slightly (66 vs a peak of 68), the number of countries averaging more than 500 infections/day has drifted up to a new peak (33 vs 31 one week ago). There are now 20 countries averaging more than 1k infections/day and ten averaging more than 3k/day. Nine of the 10 are emerging markets (the US is the one DM exception).
- Just three of the top 20 countries ranked by average number of infections/day over the past week are developed markets (same three as last week – US, UK, Sweden).
- The protests in the US have provided an environment for the virus to spread. The weekly average number of infections has stopped falling and Saturday saw 25.6k new infections reported, the highest number since 16 May. The US is still struggling to reduce daily new case growth below 1% as all of Western Europe has. The most problematic states continue to be California, Texas, Florida and Arizona. **Over the weekend these four states were responsible for over 16,500 new cases, or roughly 37% of the total new cases in the US.** The first three are the largest states in the US so it is a worry that cases continue to rise nearly three months into the pandemic, . **Overall 16 of the 50 states are now estimated to have an Rt value over 1, while only 9 states have the entire confidence interval of their Rt values under 1.** US infectious disease expert Anthony Fauci suggested that bans on travel to the US may remain until a vaccine arrives.
- **Sinovac** has announced an upbeat assessment of its vaccine, one of five in stage three trials in China. Based on killed viral cultures and called CoronaVac, they report it has caused no serious side-effects and has induced antibody production in 90% of those to whom it has been administered, when tested after two weeks.
- **Global activity slowly heading back to normal.** Google tracking data shows that activity across the world at retailers, transit and places of work is still 25% below baseline (but up 4% week on week). Very crudely, fitting a straight line to activity relative to baseline from the trough through to now and extending it until activity is back at baseline suggests another 50 days to go until activity is back to normal.

Today / Corporate News

- Bunzl - sees strong H1 performance with revs up approx 6%/operating margin modestly higher than last year (see note). Admiral –is “considering potential sale of price comparison platform” which could raise \$500m (Bloomberg). BP has lowered its long term price forecast assumptions out to 2050 to \$55/barrel for Brent and \$2.90 per mmBtu for Henry Hub gas (\$2020 real). This will result in a non-cash impairment charge and write-offs in Q2 estimated to be in an aggregate in the range of \$13 bn to \$17.5 bn post-tax. Investec Securities have issued a “Sell” note on Diageo. Their case is that analysts are too optimistic on both on EM & DM sales and the shares are historically highly valued. Both observations are possibly accurate observations, but our horizons are longer than those in the institutional world, to whom the “sell” is principally directed.

The Week Ahead

No Holidays

Monday 15

- US Treasury Holdings report (China -1% in March, Fed +14%). China owns around 1.08trillion of US Debt, -150bn since the start of 2015. The Fed owns \$4.1trn, up 1.7trn, or 68%, since January 2015. The UK is now the fourth largest holder of US Treasuries with \$395bn, a doubling since January 2015.
- Empire State Manufacturing Survey - June (-30est, v -48 May)
- Eurozone trade balance (surplus) For April (last €23.5bn)
- Brexit will return to the headlines as a **high-level meeting between UK Prime Minister Johnson and the Presidents of the European Commission, Council and Parliament takes place by video conference this afternoon.** T

Tuesday 16

- Bank of Japan meeting
- Jerome Powell testifies to Congress in Semi-Annual report on Monetary Policy to Senate Banking Committee
- US Retail Sales for May: Should begin to reflect some lock down easing, Prior -16%, estimate +7.5% (+4.5% ex Auto & Gasoline). Bloomberg estimates consumer spending will fall 40% annual rate in Q2, but rise 25% in Q3. If it rises by another 25% in Q4, the year will see consumption decline by 6% - a number broadly consistent with current GDP growth expectations.
- US National Association of Homebuilders (NAHB) housing activity index (June) – Prior 37, estimated 45 (pre-crisis 70, all time low 10 in GFC)

Wednesday 17

- UK Premier League re-starts (Arsenal v Manchester City)
- US Industrial Production. April saw declines of ~12% and Capacity Utilisation running at just over 64%. Consensus expects 3% rise overall and 6% rise in Manufacturing Industrial Production, with Capacity Utilisation rising to 67%.
- Jerome Powell testifies to Congress in Semi-Annual report on Monetary Policy to House Banking Committee

Thursday 18

- Weekly jobless data – last week 1.54m... expect 1.3m
- BoE's MPC meets. Asset purchase target expected to be increased from £645bn to £745bn. Base rate unchanged at 0.1%. Steer clear of negative rates.

Friday 19

- The European Council summit on Friday will see **EU leaders discuss the recovery fund to deal with covid-19, along with the EU's new long-term budget.** Last month, Commission President von der Leyen presented a proposal for a €750bn recovery fund, which would include a mixture of grants and loans to member states. As part of this, the Commission would borrow from markets on behalf of the EU. However, the plans would require unanimity among the member states

Bloomberg Economics U.S. Forecast Table

INDICATOR	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	2019	2020	2021
GDP (Percent QoQ AR)												
Baseline	2.1	-5.0	-36.6	16.2	6.9	3.0	8.0	5.5	4.5	2.5	-7.0	5.2
Downside	2.1	-5.0	-50.0	15.0	-2.5	2.5	5.0	5.0	4.5	2.5	-14.6	4.2
Unemployment Rate	3.5	3.8	13.5	12.0	10.0	9.0	7.5	7.0	6.5	3.5	10.0	6.5
CPI (Percent YoY)	2.0	2.1	0.2	0.0	-0.2	-0.2	1.3	1.8	2.4	2.0	-0.2	2.4
Fed Funds Rate	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25

As of June 6, 2020

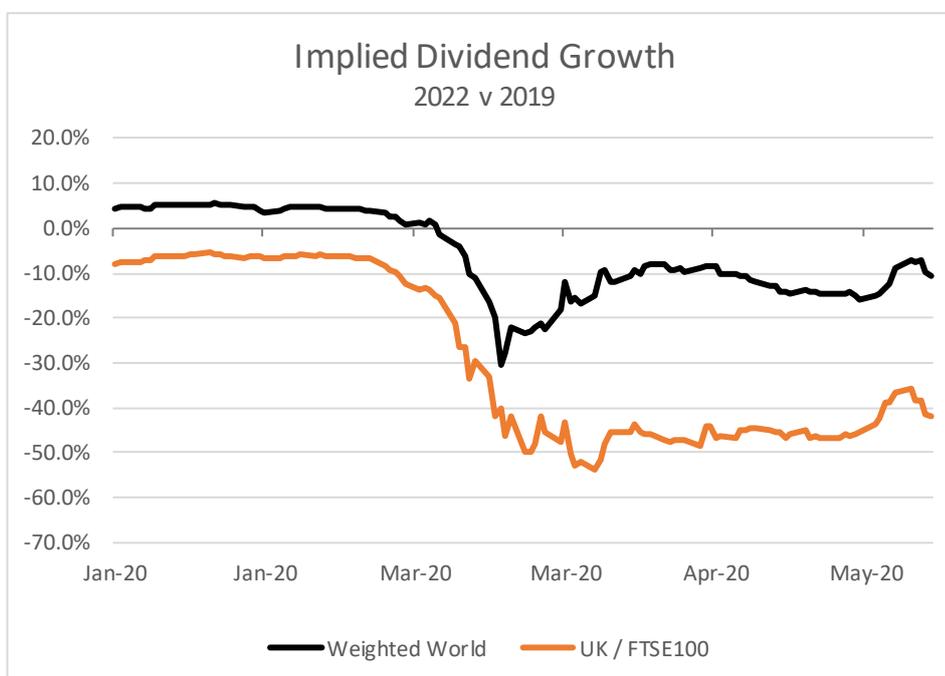
Full-year GDP growth rates are 4Q/4Q.

Unemployment and inflation rates annual forecasts are 4Q averages.

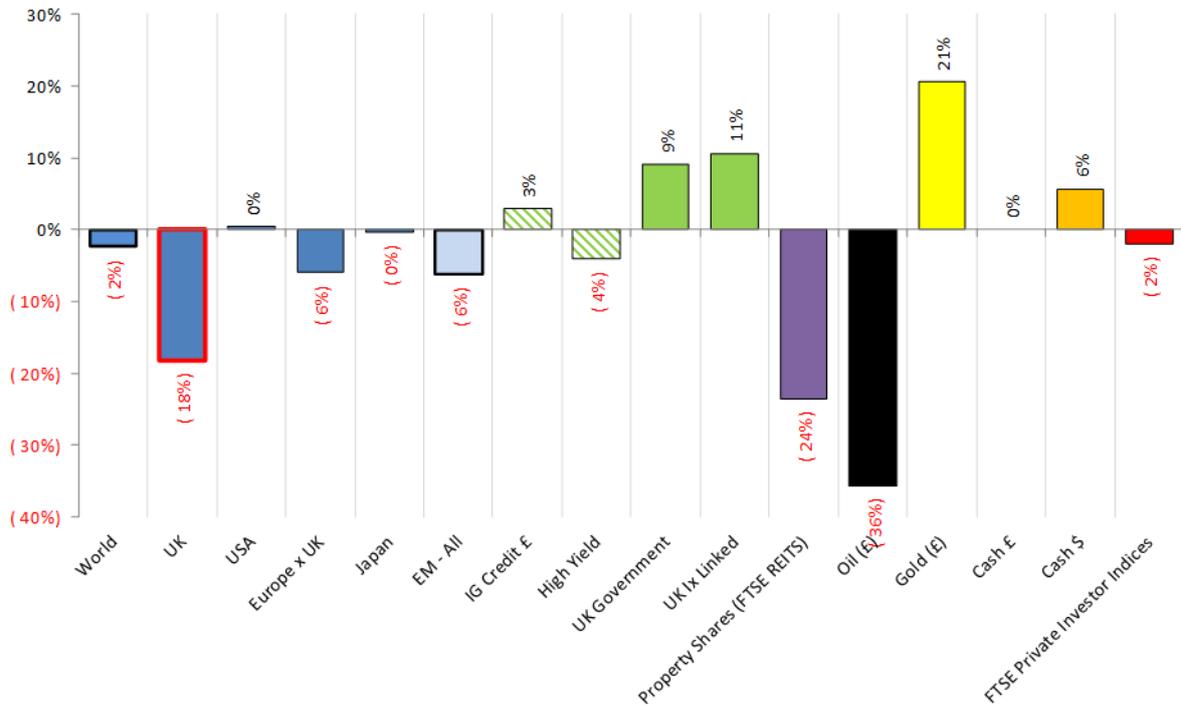
Fed Funds values are upper bound of target range.

Actual

Forecast / Forecast

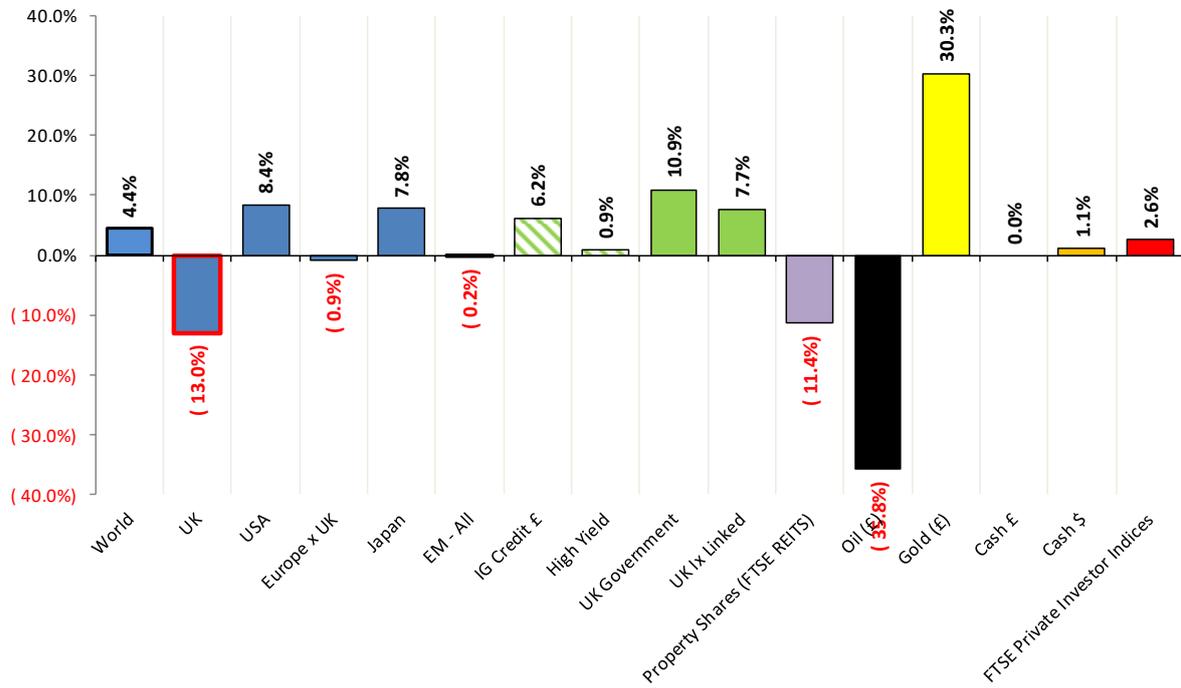


Asset Class Performance (£ - Total Return) Year To 12-Jun-20



Asset Class Returns

Total Return in £ Last 12 Months



Events Calendar

Date	Company	Event
16 June 2020	Ashtead Group Plc	Q4 2020 Earnings Release
17 June 2020	Berkeley Group Holdings Plc	Q4 2020 Earnings Release
17 June 2020	Domino's Pizza Group Plc	Q1 2020 Sales and Revenue Release - Trading Update
17 June 2020	Hill & Smith Holdings Plc	Q1 2020 Sales and Revenue Release - Trading Update
17 June 2020	Kingfisher plc	Q4 2020 Earnings Release
17 June 2020	SSE Plc	Q4 2020 Earnings Release
18 June 2020	National Grid Plc	Q4 2020 Earnings Release
19 June 2020	John Wood Group Plc	Q2 2020 Sales and Revenue Release - Trading Update
25 June 2020	Auto Trader Group Plc	Q4 2020 Earnings Release
25 June 2020	Dixons Carphone Plc	Q4 2020 Earnings Release
25 June 2020	NIKE, Inc.	Q4 2020 Earnings Release
26 June 2020	Marston's Plc	Q2 2020 Earnings Release
26 June 2020	Tesco Plc	Q1 2021 Sales and Revenue Release - Trading Statement
29 June 2020	Prosus NV	Q4 2020 Earnings Release
30 June 2020	easyJet Plc	Q2 2020 Earnings Release
30 June 2020	FedEx Corp.	Q4 2020 Earnings Release
01 July 2020	Rolls-Royce Holdings Plc	Q1 2020 Sales and Revenue Release - Trading Update
01 July 2020	J Sainsbury Plc	Q1 2021 Sales and Revenue Release - Trading Statement
02 July 2020	Associated British Foods Plc	Q3 2020 Sales and Revenue Release - Trading Update

	Monday 15 th June	Tuesday 16 th June	Wednesday 17 th June	Thursday 18 th June	Friday 19 th June
UK		ILO Unemployment Rate 3-M	CPI Core NSA Y/Y CPI EU Harmonized NSA Y/Y PPI Output NSA Y/Y ONS House Price NSA Y/Y	Retail Sales SA Y/Y BoE Official Bank Rate BoE Inflation Report	
US	Empire State Index SA	Retail Sales SA M/M Industrial Production SA M/M Business Inventories SA M/M NAHB Housing Market Index SA	Housing Starts SAAR	Initial Claims SA Philadelphia Fed Index SA Leading Indicators SA M/M	Current Account SA
RoW	EU - Trade Balance SA	GR - ZEW Economic Sentiment NSA GR - CPI EU Harmonized NSA Y/Y (Final)	EU - CPI EU Harmonized Y/Y (Final)		

Central Bank Meetings

Bank of England

18th June 2020

Disclaimer

The information in this document is for private circulation and is believed to be correct but cannot be guaranteed. Opinions, interpretations and conclusions represent our judgement as of this date and are subject to change. The Company and its related Companies, directors, employees and clients may have positions or engage in transactions in any of the securities mentioned. Past performance is not necessarily a guide to future performance. The value of shares, and the income derived from them, may fall as well as rise. The information contained in this publication does not constitute a personal recommendation and the investment or investment services referred to may not be suitable for all investors; therefore we strongly recommend you consult your Professional Adviser before taking any action. Copyright Investec Wealth & Investment Limited. Reproduction prohibited without permission.

Member firm of the London Stock Exchange. Authorised and regulated by the Financial Conduct Authority. Investec Wealth & Investment Limited is registered in England. Registered No. 2122340. Registered Office: 2 Gresham Street, London EC2V 7QP.