

The noise, the numbers & the nuance

Weekly Market Update | 19 June 2020

Welcome to our weekly newsletter, where we summarise the key market developments over the last seven days



The noise

- A new Coronavirus outbreak in Beijing has worried markets this week as the number of cases in the new cluster reaches 158 as of Thursday morning. This outbreak is despite the continuation of the ban on foreign travel to China and extensive contact tracing measures. After two months of loosening lockdown measures, the city has reimposed them to prevent a second wave of infections, returning to the same restrictions which were in place back in February.
- The Bank of England announced on Thursday that it will pump an extra £100bn into the UK economy to help fight the Coronavirus-induced downturn. This additional commitment measure brings the 2020 quantitative easing total to £745bn, far surpassing the £200bn worth of government bonds purchased by the Bank in the wake of the 2008 crisis.
- The US Federal Reserve kicked off a long-awaited programme to buy corporate bonds on Tuesday, more than two months after it was unveiled. The Fed had already begun indirectly buying corporate bonds in the form of ETFs (Exchange Traded Funds, which are financial instruments containing large quantities of assets – in this case, bonds) but was yet to step in and purchase them directly.



The numbers

GBP Performance to 18/06/20	1 Week	YTD
Equity GBP Total Return (MSCI)		
UK (MSCI UK)	2.2%	-16.9%
Europe (MSCI Europe)	3.2%	-6.2%
US (MSCI USA)	5.7%	4.6%
Japan (MSCI Japan)	1.2%	1.6%
Emerging Markets (MSCI Emerging)	2.0%	-3.7%
Fixed Income GBP Total Return		
UK Government (Barclays Sterling Gilts Index)	-1.1%	9.0%
Investment Grade Hedged (Barclays Global Aggregate Corporate Bond Index)	0.5%	2.7%
High Yield Bonds Hedged (Barclays Global High Yield Index)	0.9%	-4.4%
Currency moves		
GBP vs USD	-1.4%	-6.3%
GBP vs EUR	-0.6%	-6.2%
GBP vs JPY	-1.3%	-7.8%
Commodities GBP return		
Gold (in £)	1.2%	21.2%
Oil (in \$)	8.7%	-29.5%

Source: Bloomberg, data as at 18/06/2020



The nuance

Despite the assortment of red and green year-to-date numbers in the table above, it's still clear that markets have bounced back very strongly from their oversold positions in mid-March.

Now is the time to be patient. As an investor, it can feel counter-intuitive to watch the situation unfold and allow the market to evolve, even as you keep a careful eye on your holdings. However, trading for the sake of it is a guaranteed way to make mistakes and give up profitable positions.

Strong push and pull factors are at play in the macroeconomic backdrop, with fiscal and monetary stimulus pushing up investor confidence whilst the risk of a second wave of infections threatens to pull market sentiment back down. Given the significant bounce back since March, it's natural for markets to take a pause for the time being; even a small correction would be unsurprising at this point as market participants wait for events to play out.

Approaching the end of the second quarter, it will be some time before companies once more update the market on business conditions, thus creating a news vacuum. Markets can be volatile in such an environment, jostled around by the ebbs and flows of sentiment, and investors would be wise to remember that it is the passage of time and compounding that generate the vast bulk of returns, not short-term trading tactics.

We continue to monitor all our holdings whilst also devoting time to evaluating businesses that we don't currently own to see if any can earn their way into the portfolio. In this sense, a great deal of work is required to do nothing other than to prepare ourselves for potential future decisions.



Quote of the week

"I've got to say on this 'taking the knee' thing... it seems to be taken from the Game of Thrones."

Dominic Raab, UK Foreign Secretary.

Dominic Raab has been ridiculed for claiming that "taking a knee" was a symbol of subjugation originating from the fantasy TV drama *Game of Thrones*. Taking the knee began in 2016 with American athletes refusing to stand for the US national anthem in a protest against police brutality and racism. In *Game of Thrones*, "bending the knee" is a formal act of submission to a monarch or lord, so it's probably fair to say: not quite the same idea. Asked if he would take the knee, Mr Raab replied: "I take the knee for two people: the Queen and the missus when I asked her to marry me."

Source: [independent.co.uk](https://www.independent.co.uk)

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