

The noise, the numbers & the nuance

Weekly Market Update | 21 August 2020

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



The noise

- The S&P 500 (an index of the 500 largest US stocks) closed at an all-time record high on Tuesday, fully recovering from the losses it experienced in Spring. A day later, Apple became the first US company to reach a \$2 trillion valuation, making its market value larger than the GDP of Canada. The tech company will need to deliver on some very demanding expectations in order to justify that valuation.
- No sooner did the S&P hit record highs than the publication of minutes from a US Federal Reserve meeting put stock markets into reverse. The minutes revealed some reluctance from policymakers to put a hard ceiling on long-term interest rates. Market reactions are perhaps exaggerated given that all the Fed really said is that they believe their other aggressive policies would be enough to not require a cap on long-term rates.
- UK Consumer Price Inflation (CPI) rose 1% year-on-year in July, beating the consensus estimate of +0.6%. The largest contribution came from clothing and footwear as retailers shunned their usual summer discounts reflecting mark-downs earlier during lockdown. The Bank of England said earlier this month that it expected inflation to turn briefly negative in August.



The numbers

GBP Performance to 20/08/20	1 Week	YTD
Equity GBP Total Return (MSCI)		
UK (MSCI UK)	-3.1%	-19.8%
Europe (MSCI Europe)	-2.6%	-6.3%
US (MSCI USA)	-0.2%	7.8%
Japan (MSCI Japan)	-1.4%	-2.1%
Emerging Markets (MSCI Emerging)	-2.2%	-0.9%
Fixed Income GBP Total Return		
UK Government (Barclays Sterling Gilts Index)	-0.1%	7.6%
Investment Grade Hedged (Barclays Global Aggregate Corporate Bond Index)	0.1%	4.9%
High Yield Bonds Hedged (Barclays Global High Yield Index)	-0.3%	-1.3%
Currency moves		
GBP vs USD	1.1%	-0.3%
GBP vs EUR	0.7%	-5.8%
GBP vs JPY	0.1%	-3.0%
Commodities GBP return		
Gold (in £)	-1.4%	28.7%
Oil (in \$)	-0.1%	-24.8%

Source: Bloomberg, data as at 20/08/2020



The nuance

Consider this: the S&P 500 (an index of the 500 largest US stocks) hit an all time high just one week after 1.1 million Americans filed initial claims for unemployment benefits. This dichotomy serves as a stark reminder of the continuing divergence between the stock market and the economy.

For insight into this seemingly unintuitive environment, one need look no further than how markets behaved to the Fed's announcement on Wednesday. Investor sentiment remains buoyed, if not propped up, by government and central bank actions. Even the most modest of central bank announcements such as Wednesday's can cause large ripples on already turbulent waters.

With infection rates rising throughout Europe and new travel restrictions being imposed each week, the path to economic recovery seems to be rife with obstacles. Governments find themselves in a similar position to where they were in May, toeing the difficult line between keeping the economy open and preventing a second wave, all in the knowledge that many businesses simply cannot afford a return to lockdown.

As valuations continue to climb against an unaccommodating economic backdrop, we conduct constant analysis to ensure our holdings continue to earn their place in our portfolios. We commit a great deal of time to ensuring that each individual asset has the potential to deliver on its investment thesis, even when confronted by the uncertain economic outlook ahead.



Quote of the week

"You start punching, you start thinking where to punch, I'll attack the eye."

Mark Rapley, Australian surfer

In New South Wales this week, an Australian man leapt from his surfboard onto a shark that was attacking his wife, repeatedly punching the animal until it let go. Chantelle Doyle was surfing off Shelly Beach when a great white shark clamped its jaws around her calf and thigh. Rapley said "When you see the mother of your child, your support and everything that's who you are - you just react, you just think 'get off that calf, get off.'" This is probably the most Australian story we've ever heard.

Source: www.bbc.co.uk

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