

The noise, the numbers & the nuance

Weekly Market Update | 11 September 2020

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



The noise

- Volatility in the tech sector continued this week, taking the froth out of some rich valuations. Investors are grappling with the recent market turbulence, assessing whether the pullback for equities is a sign of market health or the start of a larger drawdown that has further to go. In the immediate term, this meant investors sought the safety of haven assets, pushing Treasury yields lower and strengthening the dollar.
- The UK Government is banning social gatherings of more than six people in England in an effort to curb growing coronavirus cases. The ban, announced on Tuesday evening, is set to take effect next Monday and applies to both indoor and outdoor gatherings, though does not apply to schools, workplaces, funerals, some weddings, and organized team sports.
- Across the pond, Donald Trump announced this week that he was 'very confident' that there would be a vaccine before the election. This was quickly met with a statement by Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, that it would be "unlikely" a Covid-19 vaccine will be available to the public by Nov. 3. News that AstraZeneca has put on a study testing a Covid-19 vaccine hold after a trial participant became ill may have tempered Trump's optimism further.



The numbers

GBP Performance to 10/09/20	1 Week	YTD
Equity GBP Total Return (MSCI)		
UK (MSCI UK)	2.8%	-19.3%
Europe (MSCI Europe)	4.1%	-2.9%
US (MSCI USA)	-0.2%	9.2%
Japan (MSCI Japan)	2.7%	1.7%
Emerging Markets (MSCI Emerging)	1.2%	2.4%
Fixed Income GBP Total Return		
UK Government (Barclays Sterling Gilts Index)	-0.2%	7.7%
Investment Grade Hedged (Barclays Global Aggregate Corporate Bond Index)	-0.6%	4.7%
High Yield Bonds Hedged (Barclays Global High Yield Index)	-0.4%	-0.6%
Currency moves		
GBP vs USD	-3.6%	-3.4%
GBP vs EUR	-3.3%	-8.3%
GBP vs JPY	-3.6%	-5.7%
Commodities GBP return		
Gold (in £)	4.5%	32.7%
Oil (in \$)	-6.8%	-32.7%

Source: Bloomberg, data as at 10/09/2020



The nuance

Broad indices continue to be driven a small number of stocks whose frothy valuations have seen a healthy correction this week.

As a more general comment, strong (albeit narrow) equity markets have pushed valuations higher and as such near term returns from equity indices are likely to be modest. However beneath the surface there are many companies on cheaper valuations whose prospects continue to improve as the recovery grinds on. The economic bounce back since April has been significant but the recovery is likely to be incomplete with a significant amount of time expected to recover pre-crisis levels of economic activity.

Near term upwards cyclical inflation is being driven by the reopening of economies against disrupted supply chains and low levels of production and this pressure is borne out by the recent data from the US and UK. However next year may see a period of disinflation due to the incomplete recovery and spare

capacity in the economy. Investors should not get complacent though as in the longer term, structural inflation is a risk as markets start to see fiscal policy as unsustainable. The loss of central bank independence and de-globalisation driven by trade wars and a need to move to more locally sourced products mean that economic productivity gains will be low. The risk is increasing that government spending is revealed as unsustainable.

This is an unusual time in markets with many complex macro issues for investors to contend with. We continue to stick to our disciplined process of collecting data, and analysing it to inform us about the environment. We strive to make as many sensible decisions as we can to invest in a prudent way, designed to compound wealth over the long term. We continue to move capital to where we see the best prospects, and protect our investments from the potential risks and changes on the horizon.



Quote of the week

“But she took it off so fast, no one had time to react so the whole place just went, ‘Woah’,”

Paul Scafidi, Exeter Town Moderator

This week, a woman voting in Tuesday’s New Hampshire primary found an unorthodox way of protesting an election official who ruled her T-shirt was a form of electioneering: she took it off and voted topless. Exeter Town Moderator Paul Scafidi said the woman walked into the Talbot gymnasium wearing a “McCain Hero, Trump Zero” T-shirt. As a ballot clerk was checking her name off the voter list, Scafidi said he informed the woman she could not wear a shirt with a political candidate featured on it while she voted. Scafidi said he did have the authority to have police remove the voter under the indecency law, but he did not want to see the incident escalate further. He said she put her shirt back on as soon as she stepped out of the voting booth and cast her ballot. Bra-vo!

Source: www.usatoday.com

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