Sanlam Wealth

The noise, the numbers & the nuance

Weekly Market Update | 02 October 2020

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

The noise

- President Trump has made multiple headlines this week, firstly on Sunday after the New York Times reported that the president paid $750 of income tax in both 2016 and 2017. The first presidential debate ahead of the November US election then descended into childish bickering and finally, confirmation came last night that the President and First Lady have both tested positive for Coronavirus.
- Democrats in the House of Representatives pushed through their $2.2tn stimulus package on Thursday. The bill will provide aid to families, schools, restaurants, businesses and airline workers. The vote marked the second time since May that the lower chamber of Congress has passed legislation to support for the US economy without the backing of Republican lawmakers and the Trump administration.
- Yesterday, the EU began legal proceedings against the UK after it refused to abandon plans to override sections of its Brexit divorce deal. The "letter of formal notice" was issued on Thursday, which could lead to a court case in the European Court of Justice against the UK. UK-EU trade talks are continuing in Brussels this week. Prime Minister Boris Johnson has said both sides should "move on" if a deal was not reached by mid-October.

The numbers

GBP Performance to 01/10/20	1 Week	YTD
Equity GBP Total Return (MSCI)		
UK (MSCI UK)	1.0%	-21.4%
Europe (MSCI Europe)	1.3%	-6.0%
US (MSCI USA)	3.3%	10.6%
Japan (MSCI Japan)	-0.7%	2.1%
Emerging Markets (MSCI Emerging)	1.5%	1.9%
Fixed Income GBP Total Return		
UK Government (Barclays Sterling Gilts Index)	-0.4%	7.9%
Investment Grade Hedged (Barclays Global Aggregate Corporate Bond Index)	0.0%	4.6%
High Yield Bonds Hedged (Barclays Global High Yield Index)	0.4%	-2.1%
Currency moves		
GBP vs USD	1.1%	-2.8%
GBP vs EUR	0.5%	-7.2%
GBP vs JPY	1.2%	-5.6%
Commodities GBP return		
Gold (in £)	0.9%	29.2%
Oil (in $)	-5.0%	-29.9%

Source: Bloomberg, data as at 01/10/2020

Sanlam Wealth

The nuance

Once again this week, investors are reminded that markets have recovered despite the dreary economic context. The eventual economic recovery will likely not materialise for some time as governments continue efforts to hold back the second wave of infections without crippling businesses.

Despite short-term economic pains, markets still price in this eventual recovery and return to normality; long-term investors must remain patient whilst this dynamic runs its course. From week-to-week, individual news pieces will likely cause short-term fluctuations but whilst the economy heals and political squabbles persist, markets are likely to be range-bound, not moving persistently in either direction.

The fiscal stimulus will eventually come and when it does, markets should react positively. No politicians are fundamentally against the idea of stimulus; they're simply arguing over the details: who should it benefit and how large should it be? Eventually they'll come to an agreement safe in the knowledge that Jerome Powell and the Fed will support them.

Whilst markets bubble along, patience is key; overtrading in an attempt to play every short-term noise piece is a good way to destroy long-term gains.

Portfolio activity

We recently initiated a new position in Kao, a Japanese chemical and cosmetics company; readers may be familiar with its British luxury soaps brand Molton Brown. Kao's Japanese yen-derived earnings stream allows us to diversify away from US consumer spending. This exposure also protects against potential US Dollar weakness triggered by aggressive monetary stimulus. We are supportive of Kao's ESG strategy which aims to reduce plastic usage through more concentrated solutions and a shift towards refillable products. The business has a strong track record of consistent profitability and 30 consecutive years of dividend growth, the longest in the Japanese stock market.

The purchase of Kao was funded by the sale of the US oil major, Exxon Mobil. Exxon is a well-run business but there is great deal of uncertainty regarding the long term viability of oil given the trend of consistent and significant investment in renewables. As green energy supply expands, oil production will likely be squeezed out of the energy supply industry, hence calling into question Exxon's ability to deliver long-term sustainable growth.

Grainger, the British residential property business and one of our portfolio holdings, hosted a capital markets day this week. The update painted a clear picture of a strong, resilient business coping well with the tough economic situation. This update reinforced Grainger's competitive advantage in the sector, with their high-quality housing and living spaces featuring super-fast broadband, parcel management, co-working spaces and access to open spaces – all available with longer leases. The company has an exciting pipeline of new business and whilst plans to build new buy-to-lets have been delayed slightly, it remains on track for its longer-term goals as the construction industry becomes more adept at working with social distancing rules.