



Markets in a Minute

23 June 2020

Shares rebound after previous week's pullback

Global shares rebounded last week but have still not made up for the losses incurred in the previous week's sell off.

Equity indices in the US rose yesterday and Asian markets were flat or slightly up, while in the UK and Europe, share markets closed down.

However, markets got a boost today after President Trump said that the Phase 1 trade agreement with China was still "intact".

As a result, Asian markets closed higher on Tuesday, while equities in the UK and Europe were heading up in early trading.

Last week's gains*

- FTSE100: 3%
- Dow Jones: 1%
- S&P500: 1.85%
- Dax: 3.2%
- Nikkei: 0.77%
- Hang Seng: 1.4%
- Shanghai Composite: 1.6%

* Data to close on Friday 19 June

Virus treatment breakthrough

The positive news on the virus front was that Dexamethasone, a cheap, widely available corticosteroid significantly reduces death rates in severely sick Covid-19 patients. Sadly, this doesn't slow transmission and is therefore unlikely to materially affect the willingness of policymakers to allow a full resumption of economic activity.

Cases rising globally

And there wasn't much more good news on the virus front. The big picture globally has not changed; the trend in new cases remains up, driven by increasing numbers in emerging countries such as Brazil, India, Pakistan, Mexico, Saudi Arabia, Bangladesh, Indonesia and South Africa.

Perhaps the most worrying growth is in the southern states of America where hospitalisations are beginning to put real pressure on ICU capacity in Alabama and Arizona.

A new outbreak in Beijing has hopefully been rapidly suppressed, albeit at the cost of intensified lockdown efforts in one of China's most important cities.

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The trouble with easing lockdowns...

In Europe case numbers have stopped falling and, as efforts have switched towards reopening the economies, there has been a clear failure to decisively suppress the virus.

This is particularly marked in the UK where we are less than two weeks away from the 4 July, when bars and restaurants will be allowed to reopen.

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Wall Street not so far from Main Street

Whilst there is a lot of scepticism about how the recent rally in markets is disconnected from the real economy, our research shows that, in the US at least, the retail sector has proven to be freakishly well-aligned with the stock market after rebounding strongly in May. Where it is disconnected is further upstream, with industrial production barely staging any recovery at all.

Chinese stimulus

After holding off from their traditional recipe of credit and infrastructure growth, the Chinese authorities have found themselves resorting to that playbook again. Excavator sales have picked up as fixed asset investment by state

US Retail sales vs S&P 500



Source: Refinitiv Datastream June 2020

owned enterprises has begun outperforming private sector investment, just as it did during 2016. Money supply growth has been picking up and the authorities are particularly keen to see funds deployed to Chinese small and medium sized enterprises which account for 80% of Chinese employment.

UK asset purchases to slow down

It is far from clear how the Bank of England would react to supply shock-induced inflation, but for now the policymakers remain in reasonably dovish mood. The Bank kept interest rates unchanged last week but increased its asset purchase target by £100bn. However, it is spreading that out over the remainder of the year, rather than the next three months, marking a marginally more hawkish announcement than had been expected.

That saw a rise in gilt yields as it means net issuance (i.e. bonds not bought by the Bank of England) is likely to be higher over the coming three months, although

we don't yet know how evenly the Bank will spread out its purchases. We think there may be modest upside for yields, notwithstanding the Bank's generally dovish mindset. Recent movements in commodity prices, the rally in oil and a slight pickup in economic activity would all be consistent with rising gilt yields.

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