INFORMATION FOR INVESTMENT PROFESSIONALS

Your success. Our priority.

Market updates

Investment team updates | 14 August 2020

Fixed income

- Core bond yields have risen slightly over the course of the week, with the US 10-year ending Thursday 13 August at 0.70%, up from 0.58% on Monday.
- Credit spreads continued to outperform this week, grinding tighter over the past few days, including EM spreads.
- After a better day on Wednesday 12 August, when the S&P 500 rose 1.4%, equities were off again a little on Thursday.
- Tuesday saw gold have its weakest day in about seven years, down around 6%. Then Thursday saw silver rally 7% as precious metals regained some strength after a recent sell off.

News

- Covid-19 cases have now topped 20 million globally. Russia granted regulatory approval for a vaccine, but this has been met with scepticism in some quarters.
- There were better US Jobless Claims, which were less than 1 million since the crisis began. However, still no fiscal package has been agreed yet, with a stalemate between the Republicans and Democrats. US inflation, meanwhile, spiked higher 0.6% month-on-month, which is the largest single month increase in a few decades.
- Results season is finishing and overall it was not as bad as feared.
- UK employment fell by 220,000 in the period from March to June – more is to come in July. Meanwhile, UK GDP was -20.4% in Q2 – the weakest in Europe and since records began in 1955 – although there was a rebound in June.
- The latest RICS survey shows ongoing strength in the UK housing market in June and July, supported by the stamp duty cut. And in July UK BRC retail sales were up 3.4% year-on-year.
- Mexico cut rates by 0.5% to 4.5%.
- Israel and UAE normalised diplomatic relations.

US equities

Markets

- US equities rallied again last week (ending 7 August), with the S&P 500 and the Nasdaq both up by 2.5% and the Russell 2000 up by 6%. The S&P 500 is now just 1% below all-time highs.

- Markets moved higher on some solid economic data and continued strength of Q2 earnings relative to expectations. All sectors were higher, with value and cyclicals leading the rally with this posture carrying on into Thursday 13 August. Industrials were the best overall performers followed by financials. Tech also had a good showing led by Apple and Microsoft. Real estate and healthcare lagged.
- This broadening of the market rally away from tech into more cyclical names suggests we are seeing some more confidence in the economic recovery and prospects for a vaccine.

Economy

- There were a few notable bright spots in data releases which highlight this recovery theme: July ISM manufacturing, non-manufacturing and non-farm payrolls all surprised to the upside, and jobs were added for the third straight month in July, though at a slower place. However, overall gains in the jobs market have not yet restored half of those lost during the pandemic.
- The better than expected data and continued optimism over a vaccine has helped guide this rotation of money out of year-to-date winners and into laggards.
- The next coronavirus relief bill has been the subject of debate in Congress. The previous set of benefits rolled off on 31 July and, due to the deadlock between Republicans and Democrats, President Trump signed off a number of executive actions over the weekend to provide some temporary relief, including $400 weekly payments for jobless assistance, which is down from the $600 people received under the previous package. This is, however, secured through to December. There was also extended relief for student loan payments and payroll tax deferment.
- The expectation is that Congress will still come to an agreement on a more comprehensive package, and there is a strong feeling that this is crucial so as not to undermine the nascent recovery. Expectations are for a $1.5 trillion+ package.

Earnings

- We're nearing the end of Q2 reporting season, and by the end of last week 89% of the S&P 500 by market cap had reported.
- So far, earnings are declining -32.8% year-on-year for Q2. This would mark the biggest quarterly decline since 2008, although earnings have actually surprised with a big beat to the upside against a backdrop of drastically cut expectations and the withdrawal of guidance following Q1 earnings. If cyclicals are excluded the decline rate improves to -12.3%.
- Earnings have beaten estimates by 23% in aggregate, with 81% of companies beating their projections.
- This has also generated a fair degree of optimism for Q3, with consensus estimates for the quarter so far revised upwards by 3%.
- Tech earnings have grabbed the headlines, but the biggest beats have come from industrials and consumer discretionary. Industrials have done well to manage their costs and consumer-facing stocks benefited from the stronger than expected initial reopening trend.

European equities

- Covid-19 flareups across Europe continue, but all eyes are on the US experience and the subsequent political implications.
- Results in Europe and economic data show an interrupted V-shaped recovery, but a sharp one.
- We have increased weightings in some high-quality cyclicals left behind in the post-March rally – defensives are standing on more expensive valuations by comparison.

Multi-asset

- Market sentiment continues to be driven by a fast-moving virus dynamic, robust but decelerating growth and a step-down in US fiscal policy.
- In economic news, PMIs pointed to a continued recovery, but with pockets of weakness in areas such as employment.
- Meanwhile, virus developments have been varied with the US continuing to bring caseloads under control, while Europe shows signs of a second wave.
- Attention has been on Q2 earnings season, where deep contractions – the greatest since the global financial crisis – have generated the largest beats to depressed expectations over the same period, and lifted relative optimism for Q3 earnings growth.
- The shape of delivered earnings has favoured compounding sectors, suiting our preference for quality.
- No changes were made to EMEA asset allocation, which continues to favour US and Asia within equities, alongside corporate credit.

Note: all data as at 13 August 2020, unless otherwise specified. Source: Bloomberg.