INFORMATION FOR INVESTMENT PROFESSIONALS

Market updates

Investment team updates | 7 August 2020

Fixed income

- Equities enjoyed straight daily rises this week – 0.7% on Monday, 0.4% on Tuesday and 0.6% on Wednesday and 0.6% on Thursday. Credit spreads tightened slightly over the week, with Global IG ending the week at 137bps. Meanwhile, the US 10-year government bond yields edged higher on Thursday to 0.54% having hit a record low of 0.52% on Wednesday.
- The US dollar ended Thursday lower, 1.19 against the euro and 1.32 against the GBP.
- Gold went higher again on Thursday to $2,038, and is up in excess of 33% year-to-date.
- The US high yield market is back into positive returns for the year-to-date.
- There has been light issuance in IG, but European HY saw the highest July on record.

News

- US initial jobless claims fell to lowest level since March. However, there was little progress on a fiscal response – ahead of today's month-long recess for Congress.
- New Covid-19 cases in the US appear to be heading lower, for example in California.
- July's US Services ISM was stronger, at 58.1 compared with 55 previously.
- In China the (Caixin) services sector is losing momentum, with the PMI falling to 54.3 in July from 58.4.
- With risks to the economic downside, the Bank of England kept both interest rates and level of quantitative easing unchanged.
- Diageo missed on earnings due to weakness in the bar and restaurant trade.
- PMIs are reflecting greater recovery momentum in Europe relative to USA, although European GDP contracted by 12.1% in Q2.

US equities

Markets

- The S&P 500 was up 1.7% in the last week of July, capping off a 5.5% gain for the month as a whole, while the Nasdaq was up by 3.7% and 6.8% for July. This was the fourth straight month of gains, providing the largest four-month percentage gain since December 1998. For the week, cyclicals generally underperformed growth and momentum.

- At a sector level, tech was the big gainer, in large driven by Apple's gains; consumer discretionary was boosted by Amazon's excellent results; and at the other end, energy was the biggest underperformer with sector heavyweights Chevron and Exxon pulling the sector down. Materials companies were also down, though those with exposure to gold/silver mining fared better. Financials also fell back, cementing the theme of cyclical underperformance.
- In addition to earnings, early signs that the Covid-19 infection rate may be plateauing in several parts of the south also helped to support the market.

Economy

- The first estimate for Q2 GDP showed a fall of 32.9% on an annualised basis – the worst decline on record. While this is a huge fall, it had been widely expected and was slightly ahead of estimates.
- There was a slight week-on-week increase in initial jobless claims to 1.43 million, pointing to some of the recent difficulties in controlling the infection rate and a reversal of the reopening trend in some areas.
- A lot of other recent data has shown a noticeable slowing in the recovery, but the trajectory is still largely positive.
- The US Federal Reserve kept rates on hold at its policy meeting and committed to continuing with sizeable treasury and MBS purchases. It also reiterated that the next hike is a long way off.

Earnings

- As of 3 August, 78% of the S&P 500 had reported quarterly earnings, according to Credit Suisse. In a continuation of the previous themes, companies are generally beating estimates, but this is against a backdrop of very low analyst expectations. Earnings have exceeded estimates by 22.6% in aggregate, with 81% of companies beating estimates. Based on those companies which have reported, expectations are for a Q2 EPS decline of -34.8%. When cyclicals are excluded this figure improves to -14.1%. In hindsight, analyst estimates seem to have been too pessimistic, though not so surprising given the extent of withdrawn guidance ahead of Q2 and a late quarter improvement following reopening trends.
- The big story of recent days has been the blowout earnings reports from the tech giants. Apple, Amazon, Facebook and, to a lesser extent, Alphabet all exceeded expectations. Apple was up 10% after posting earnings on Thursday 30 July and has since continued to rise. The rise in its stock price on Friday alone added $172 billion to its market cap; more than the entire size of Nike or McDonald's. The tech companies have been big beneficiaries of the coronavirus lockdown as far more purchases and work have been carried out online.
- Kodak, the (former) camera company, was up by more than 900% last week before falling back this week. It announced a notable pivot in its business interests after gaining a loan from the US government to produce materials for generic drugs.

European equities

- Results from the banking sector, a particular focus, have in some places shown stronger than expected capital, but tough experiences in investment banking are due to 2020's topsy-turvy markets. Commerzbank, ironically since it was displaced last year in the DAX Index by Wirecard, has intimated that the Wirecard saga has cost it dearly.
- Pharma stock results have been OK, but the focus in the energy sector has been on dividend cuts – the more so as BP and Shell were the biggest payers in the UK index.
- The UK has underperformed the rest of Europe, but has attracted M&A interest. Hastings Insurance is on the end of a bid from a consortium including Sampo, which dominates its local Scandinavian markets.
- Overall, we have maintained our bias towards quality, focusing on sustainable business models, and have been thankfully little affected by the problems in the hospitality and transport sectors, where Covid-19 has been especially painful.

Note: all data as at 6 August 2020, unless otherwise specified. Source: Bloomberg.