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Asset Management

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Weekly Bulletin: A quieter week in financial markets

Key takeaways

In a more muted week for financial markets, welcome vaccine news faced off against concerns over the economic impact of second-round lockdowns. In the UK, the national debt topped £2trn.

- Last week presented a quieter patch for financial markets, with share prices largely marking time. This follows a burst of buoyancy earlier in the month created by positive vaccine news and some sense of conclusion to the US presidential election. While logistical issues relating to vaccine storage could prove problematic, and President Trump continues to deny his electoral defeat, markets are still listening to the good news.
- However, slightly stronger bond prices over the past few days suggest some nerves around the economic impact of further lockdowns. We would note that while population restrictions are bound to be meaningful in economic terms, there are early signs that the effects of the latest measures could be less severe than earlier in the year.
- China continues to provide a potential blueprint for recovery. As the first country hit by the pandemic, it is also charting a course for a way out. The latest figures show that demand in the domestic economy is very strong.
- Unrelated to the virus, an Asian trade deal brokered just ahead of last week has also helped to boost assets in the region. Seen as a positive step for Asian economies, the nations joined by the agreement include China, Japan, and South Korea, and together account for around one-third of the global economy and its human population.
- Closer to home, on the heels of the government's latest spending programme, the UK's national debt has reached its highest levels in six decades – over £2trn. Chancellor Sunak himself must surely be wondering how on earth to pay for this, though he has stated that austerity is not the answer. A Spending Review is due later this week.
- On the other side of the Atlantic, the US Treasury Secretary (a wing of central government) has asked the US Federal Reserve (the independent central bank) to end some of the emergency lending programmes set up during the pandemic. The Fed has spoken out, warning that the economy is still 'strained and vulnerable'.

Weekly market moves

Over the course of the week, sterling rose versus most major international peers, while (continuing a recent trend) the US dollar was weaker.

UK assets performed well, particularly inflation-linked government bonds, and the share prices of smaller and mid-sized businesses (which tend to benefit most from sterling strength).

Bond prices rose (yields, which move inversely to prices, fell) amid slight concerns regarding the impact of lockdowns on local economies.

In commodity markets, oil also performed well, aided by news of possible production cuts.

What to look out for this week

Late-stage Brexit talks continue this week. Negotiations have now moved back into a virtual sphere due to outbreaks of COVID-19 in the negotiating team.

There are rumours that the US is preparing to block access to some of its technology exports for almost 90 military-linked businesses in China. A further rise in geopolitical tensions would likely be unhelpful to either country.

Market moves (as at 20 November 2020)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	1,785.4	0.6%	14.6%	-14.6%
MSCI United Kingdom Mid Cap	1,214.6	0.7%	13.4%	-6.5%
MSCI United Kingdom Small Cap	404.3	2.2%	15.0%	-9.8%
MSCI World (GBP)	1,914.3	-0.5%	7.9%	9.5%
S&P 500 (GBP)	3,557.5	-1.7%	6.0%	11.6%
MSCI Japan (GBP)	1,050.6	1.3%	7.8%	8.3%
MSCI Europe ex-UK (GBP)	1,398.7	0.5%	12.4%	5.0%
MSCI Pacific ex-Japan (GBP)	1,588.8	2.3%	11.9%	1.2%
MSCI Emerging Markets (GBP)	67,984.0	0.8%	6.7%	10.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,397.0	0.4%	-0.8%	6.7%
BoA Merrill Lynch Index-Linked Gilts	613.4	2.0%	-2.0%	8.4%
BoA Merrill Lynch £ Corporate	471.0	0.8%	1.3%	6.1%
Commodities				
Oil (West Texas Intermediate, GBP)	$42.2	4.6%	15.1%	-31.3%
Gold (GBP)	$1875.7	-1.7%	-3.0%	23.5%
S&P / GSCI (GBP)	1,808.8	1.6%	5.7%	-30.4%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

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