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Markets in a Minute

21 July 2020

Global markets rise on vaccine hopes

Global share markets largely rose over the past week on encouraging reports of progress with some of the coronavirus vaccines currently in development.

Chinese stocks weakened, however, after a period of very strong performance, although we see this as a switch to a more gradual rate of increase rather than an outright reversal of fortunes.

Bond prices rose, perhaps because investors are still nervous that the withdrawal of fiscal stimulus will cause economic conditions to worsen in the future, but economic data was broadly positive over the past week, especially in the US and China.

Last week's markets performance*

- FTSE100: 3.2%
- Dow Jones: 2.3%
- S&P500: 1.24%
- Dax: 2%
- Nikkei: 1.9%
- Hang Seng: -2.5%
- Shanghai Composite: -5%

**Data for the week up to close of business on Friday 17 July.*

A bright start to the week

Markets were up in the US and across Europe yesterday as the marathon summit to decide on the €750bn European Recovery Fund showed signs of progress. UK shares lagged, however, with the FTSE100 closing down by 0.49%. The EU summit eventually concluded with a deal in the early hours of Tuesday morning, helping push markets up yet again. UK and European shares were heading up in early trading.

Earnings season kicks off in US

Last week saw US earnings season get under way and the biggest US banks (JP Morgan, Goldman Sachs, Citibank, Bank of America and Wells Fargo) put aside $35bn in loan-loss provisions which weighed on their reported earnings. However, it is important to remember that these numbers are just estimates.

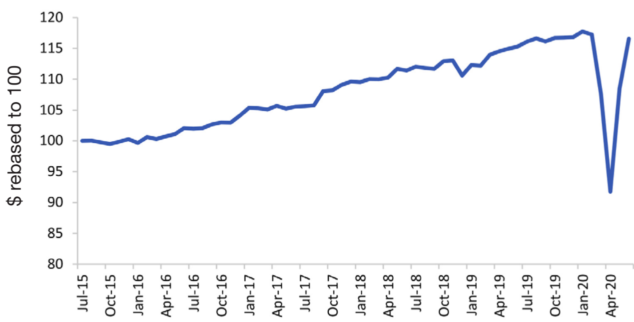
Overall the earnings season is going reasonably well. According to headline statistics, 52 companies beat earnings estimates compared with 13 who fell short, giving a "beats to misses" ratio of 80%. We don't find much value in this number as, come good times or bad, the beats-to-misses ratio for earnings is invariably around 80%, with estimates seemingly massaged up and down between reporting periods to create a somewhat artificial optimism.

Generally, though, earnings reports have been reasonably well-received by the market and this is better news – it implies that guidance, to the extent that companies have been able to offer any, has been well received.

One exception would be Netflix, whose subscriber growth numbers disappointed the market despite management warning that the pace of growth would slow. Shares dipped 15% in after-market trading.

Upbeat Main Street

Last week saw consensus-busting US retail sales figures, with sales up 7.5% in June following a record 18.2% increase in May.



Source: Datastream / US Census Bureau July 2020

That came on top of an encouraging manufacturing purchasing managers' indices in Philadelphia and New York which, taken together, would suggest activity has stopped contracting and is now expanding at a healthy rate.

The Federal Reserve Beige Book, a survey of the 12 US regional Federal Reserve districts, was also positive, showing economic activity increased in almost all jurisdictions and consumer spending picked up as many nonessential businesses were allowed to reopen.

Industrial production rose 5% in June, business inventories fell 2.3% and home-builders' confidence for this month returned to the March's pre-lockdown level.

Things were a bit more mixed in the UK. The May GDP figure was disappointing for the market and there was very little comfort taken in the unemployment rate remaining low, given it is likely to increase as state support is withdrawn. However, UK retail sales jumped by 3.4% in June, up from a 5.9% fall in May.

China's trade was better than expected. Forecasters expected to see a 9% decline in imports, but actually got a 3% increase, reflecting stronger local demand.

Stimulus news

In the US, the unemployed are set to lose their $600-a-week in extra unemployment benefits on 31 July. If this cut goes ahead the strong retail sales numbers will deteriorate very quickly, and so we expect them to be extended, especially given it is an election year.

In Europe, the €750bn European Recovery Fund was approved early on Tuesday after one of the longest meetings in EU history. The agreed package includes €390bn of grants to countries most in need, and €360bn of low-interest loans. The package of grants was pared back from an initial proposal of €500bn, due to opposition from the so-called Frugal Four (Austria, Denmark, Netherlands and Sweden). In return, those countries will now receive bigger annual rebates from the EU.

West vs East

The big news in the escalating tensions between the US and China was President Trump ending Hong Kong's special status with US. The implications of the move are still to be determined but ought to mean the loss of preferential trade arrangements. That will have limited implications for the US, but will be very harmful for Hong Kong's domestic economy.

In response China summoned the US ambassador and said it will sanction US officials, while the US said it will sanction people and entities that it thinks are undermining Hong Kong's freedoms. This is a fast-moving situation and further developments are expected this week.

COVID vs humanity

More bad news for Hong Kong is the outbreak in coronavirus cases that may actually exceed those experienced during the first wave of the crisis. It is worth remembering, however, that the city weathered the initial wave relatively well.

The most economically significant growth in cases remains in the US. Looking for positives, the rate of growth looks to have peaked, giving hope that the actual numbers may slow this week or next. There have also been fewer hospitalisations, which seem to have peaked along with deaths. Normally these metrics would lag behind case growth, but it appears that voluntary social distancing by "at-risk" groups may have flattened the curves for these most dire metrics.
