BREWIN DOLPHIN

Markets in a Minute

13 October 2020

Equity markets rally on Trump recovery, Biden lead, and hopes for stimulus deal

Most global equity markets made solid gains last week on hopes of a US stimulus deal, and following President Trump's return to the White House after treatment for Covid-19.

Markets were also boosted by the increasing likelihood of a Joe Biden election victory. His lead in the polls is expanding, and although Democrats may raise corporate taxes and regulation, investors are encouraged by the party's approach to job creation and wage growth. Biden's lead may also mean there is less chance of a disputed election result.

Last week's markets performance*

- FTSE100: +1.94%
- S&P500: +3.84%
- Dow: +3.26%
- Nasdaq: +4.55%
- Dax: +2.85%
- Hang Seng: 1.47%
- Nikkei: -0.75%

**Data for week to close of business on Friday 9 October.*

FTSE100 lags as global markets rise at the start of the week

Most equity markets rose on Monday, with US indices powering ahead led by gains in big tech. As hopes faded for a new US stimulus deal ahead of the election, investors returned to the growth stocks that have proved so reliable during the pandemic and lockdowns. The Nasdaq closed up by 2.56% at 11,876.26, having been up by 4.1% at one point in intra-day trading. The Dow gained 0.88% and the S&P500 rose by 1.64%. Markets across Europe closed up by around 0.7%.

In the UK, the FTSE100 lost 0.25%, weighed down by a strengthening pound which rose on hopes of a Brexit deal. The more domestically focused FTSE250 closed up by 0.52%, despite yesterday's introduction of a tiered system of localised lockdowns.

Those in the highest-risk areas could see a range of measures introduced, from bans on households mixing to closures of pubs, bars and gyms. Liverpool is currently the only city to be placed in the highest-risk tier. However, it appears tougher measures are on the way for a number of areas after Chris Whitty, the chief medical officer, said the basic "Tier 3" measures would not be enough to stop the virus spreading.

More UK stimulus

Rishi Sunak unveiled a watered-down furlough scheme for firms which are forced to close under local lockdowns. The government will pay two-thirds of employees' salaries to a maximum of £2,100 per month. Companies will still need to pay national insurance and pension contributions. The scheme will begin on 1 November and will run for six months, with a review in January.

The announcement followed a disappointing set of GDP data for August that showed monthly growth of 2.1%, less than half the 4.6% rate expected by economists. High-frequency data, such as restaurant bookings, traffic and retail footfall, shows that activity slowed in September, which makes sense given the end of the 'eat out to help out' scheme.

US stimulus talks deadlocked

Talks between Democrats and Republicans in the US still appear at an impasse. Trump has given ground and agreed to a slightly larger stimulus package worth $1.8trn, but faces objections from his own party who want the bill capped at $1trn. It is worth noting, however, that the Democrats have already passed a $2.2trn plan. This could be implemented soon after election day if the Democrats gain control of both the House of Representatives, and the Senate, in a so-called 'blue sweep'.

Brexit clock ticking

Talks resume today ahead of an EU summit this Thursday, when all member states will begin focusing on Brexit negotiations. Thursday is also the day that Boris Johnson has said he would walk away from talks if a deal was not in sight. It seems unlikely Johnson will turn his back on any prospect for a deal given the pressure he is under to reach a compromise, especially amid such intense criticism of his handling of the coronavirus.

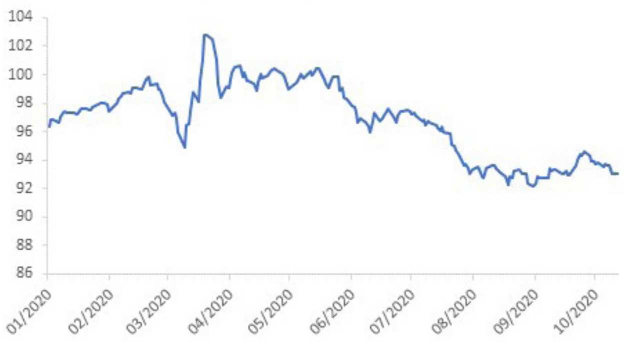
Johnson has been on the phone to Macron and Merkel over the weekend in a bout of last-minute diplomacy. While some reports suggest state aid and dispute resolution are the key negotiation sticking points, others point to fishing rights, a topic on which France is particularly vocal. It may be surprising that fishing is such a deal-breaker, given that it accounts for only around 0.1% of UK GDP. But it is the lifeblood of many coastal communities and has an emblematic value beyond that which can be expressed in economic terms. Despite Johnson's threat to walk away, Michel Barnier, the EU's chief negotiator, has said talks will continue after Thursday and that a realistic deadline is in fact 31 October.

A duller dollar

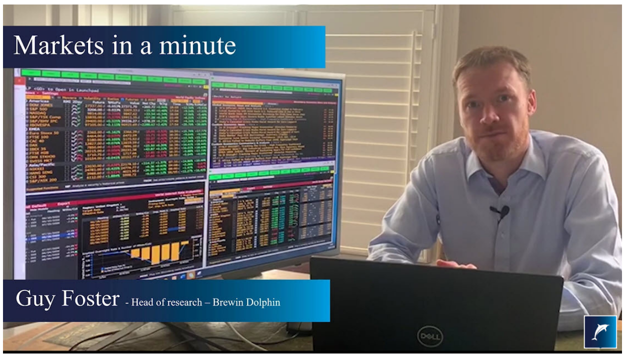
Stephen Roach, former Head of Morgan Stanley's Asian business, has suggested that the US dollar could decline by 35% as a result of global economic conditions. While we are also bearish on the dollar, we do not foresee such a drastic fall. We suspect the dollar will continue the gradual decline that we have been observing in the market.

Part of our negativity is based on the fact that the greenback has lost the interest-rate support that has held it up in recent years.

US Dollar Price Decline 2020



Source: Brewin Dolphin, Refinitiv Datastream



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