

# Monthly Market Summary



August 2020

## Summary: Strong August for global equity investors

Global stock markets continued their upward trajectory in August, +6.1% (in USD), while global government bonds fell -0.9% (in USD). Key events included:

- The best August since 1986 for the S&P 500 as US stocks edged higher;
- A US Fed policy rethink and slowdown in European services activity;
- A divergence in Asia's economic revival.

Investor sentiment remained positive in August despite global coronavirus cases reaching 25 million as market participants anticipated further stimulus, business surveys improved, and Q2 corporate earnings reported better than expected. Supported by strong performance by Apple – the first US company to reach a \$2 trillion valuation – the S&P 500 saw its best August since 1986 and Asian shares reached a 29-month high. Meanwhile, gold (\$1,968/oz) fell slightly during the month, after rallying earlier in the year, while oil (Brent) edged higher to 45.3 (\$/b).

## US: Cases subside, Fed's policy framework, stimulus impasse

New cases subsided in August, although hotspots persisted, and the economic data reflected the ongoing economic rebound. Retail sales (+1.2% m/m) rose despite a reduction in unemployment benefit checks which likely weighed on spending power. With mortgage rates near record lows, existing home sales (+24.7, m/m) rose sharply for a second straight month and the latest manufacturing survey (ISM PMI) hit its highest level in almost two years, supported by a resurgence in new orders. Meanwhile, the Fed's "new" policy framework, presented at its (virtual) annual symposium, focused more on the importance of economic growth and the labour market and less on worries of high inflation (July CPI +0.6% m/m, sa). Meanwhile, further stimulus talks in the US Congress remained at an impasse.

## Europe: Economic sentiment up, dismal preliminary inflation data

After strong growth in July, the latest Euro Area business surveys (PMIs) pointed to slower expansion in the services sector (50.1), amid an upturn in virus outbreaks in the region. Manufacturing output, however, remained strong – while below pre-pandemic levels – and overall economic sentiment (87.7) in the Euro Area edged higher for the fourth consecutive month, confirming the gradual rebound. A preliminary estimate showed falling consumer prices in the Euro Area for the first time since May 2016 (-0.2% y/y), well below the ECB's target of just under 2%. Elsewhere, the strength in UK factory activity (PMI 55.2) persisted in August, seeing its fastest growth since February 2018, and services saw its steepest expansion in 6 years (60.1). Nevertheless, UK job losses increased, with the government set to wind down its job-retention scheme by the end of October.

## ROW: China's services leading, PM Abe resigning

The economic rebound in China continued, driven by a robust uptick in services activity (PMI 55.2) while manufacturing activity grew at a slower pace compared to July, potentially impacted by floods in Southern China. Elsewhere, Japan's PM Abe, its longest serving PM, announced his pending resignation due to health concerns, leaving behind a country in a fragile economic recovery. The most recent gauge of industrial production (+8% m/m) increased for a second straight month and at its fastest pace on record, while retail sales declined (-3.3% m/m) amid weak consumer demand. Meanwhile, the coronavirus epicentre shifted to India as the country reported its biggest one-day rise (75k) in new infections, while students in Hong Kong prepared for face-to-face teaching in September – illustrating the wide regional differences in battling the virus.

## Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	0.71%	-0.8%	8.6%
UK 10 Yr	0.31%	-1.4%	1.8%
Swiss 10 Yr	-0.41%	-0.9%	-4.7%
German 10 Yr	-0.40%	-1.0%	-2.6%
Global IG (hdg \$)	1.60%	-0.8%	5.7%
Global HY (hdg \$)	5.73%	1.4%	4.2%
Equity Index	Level	1M %	1 Yr %
S&P 500	3'500	7.2%	21.9%
MSCI UK	9'909	1.5%	-16.1%
SMI	10'136	1.3%	5.9%
Eurostoxx 50	3'273	3.2%	-1.8%
Nikkei	23'140	6.6%	14.1%
Hang Seng	25'177	2.5%	1.2%
MSCI World (lcl)	280	5.8%	14.6%
MSCI World (\$)	296	6.1%	16.5%
Currencies (trade-weighted, nominal)			
US Dollar		-1.1%	-1.6%
Euro		0.4%	5.9%
Yen		-1.1%	-2.6%
Pound Sterling		0.9%	5.0%
Swiss Franc		0.2%	4.7%
Chinese Yuan		1.4%	2.5%
Other	Level		
VIX	26.4	8.0%	39.1%
Brent (\$/b)	45.3	2.3%	-23.8%
Gold (\$/oz)	1'968	-0.4%	29.4%

## Services PMI "heatmap"

	2020							
	J	F	M	A	M	J	J	A
US	53	49	40	27	38	48	50	55
UK	54	53	35	13	29	47	57	60
Euro A	53	53	26	12	31	48	55	50
FR	51	53	27	10	31	51	57	52
GE	54	53	32	16	33	47	56	51
China	54	30	52	53	54	54	54	55

Source: Bloomberg, Rothschild & Co

Services PMIs are economic indicators derived from monthly surveys of companies (>50=expansory, <50=contractionary).



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