

Monthly Market Summary



July 2020

Summary: The uneven economic revival continues

Global stock markets rallied sharply in July, +5.3% (in USD), alongside global government bonds, +0.8% (in USD). Key events included:

- COVID-19 hotspots persist, but activity momentum continues;
- European Federalism; US stimulus brinkmanship;
- US/China and US/EU relations deteriorate.

Market sentiment proved resilient in the month, despite new daily infection records in the US, Hong Kong and many developing countries. Narrow US stock market leadership is increasingly evident - the largest five stocks now represent nearly a quarter of the S&P 500. Second quarter earnings season - half completed - proved less dramatic than feared: US -35%, and EU -23% (y/y%). Gold (\$1,976/oz) touched an all-time high and silver a 7-year high, alongside falling bond yields – the US 10y real yield touched an all-time low of -1.01%. Meanwhile, the dollar's downward trend continued, and a strong euro pushed the bilateral rate to 1.18, its highest in two years.

US: Cases Surge, Fed Stands Pat, Congressional Brinkmanship

As cases surged in a number of US states, the economic data continued to surprise; retail sales (+7.5% m/m), housing starts (+17.3% m/m) and regional manufacturing surveys all showed an ongoing rebound. Yet, stubbornly high US jobless claims suggest the shape of this recovery may be increasingly uneven. Meanwhile, near-term deflationary pressures have faded (June CPI +0.6% m/m, sa). The US Federal Reserve stood pat at its latest meeting, as Powell's dovish testimony suggested the loose policy setting is likely to persist. Extended US unemployment benefits lapsed after Congress failed to implement a new stimulus package, exposing divergent objectives between the Democrats and Republicans. Meanwhile, Joe Biden embraced the 'Green New Deal' in all but name and maintained a 10pt lead in opinion polls.

Europe: Federalism, Economic Revival, The Tax Trade War

The pan-European recovery fund finally received approval from the 'frugal four', paving the way for a more federalist European Union. The ratio of grants to loans was revised downwards, but the overall package size of €750bn (5% of GDP) remains unchanged and crucially is funded from new collective borrowing, not taxes. A historically weak second quarter (real GDP -12.1%, q/q) highlights the challenges of such backward looking data – the latest business surveys (PMIs) all point to a swift revival in services (55.1), with manufacturing (51.1) lagging largely because it fell less dramatically to start with. Tensions between the US and the EU ignited after the former introduced new duties on \$1.3bn of French exports, in response to its proposal to tax US technology companies.

ROW: China's Recovery, Geopolitics Intensifies, Japan Lags

China confirmed its status as 'first in first out' of the economic crisis, with positive second quarter growth signalling an end to the country's first contraction in three decades. China's new Hong Kong security law undermined the territory's autonomy and its appeal as international finance centre. Ongoing disputes with the US, UK and Europe signalled China's more aggressive policy stance. Elsewhere, Japan - from an economic standpoint - remains the developed-market outlier: the July PMI survey data failed to rebound, with services and manufacturing still disappointingly weak (both at 45.2). The country avoided the initial Covid-19 surge earlier in the year, with most of the suppression impact concentrated in the second quarter.

Market summary (total return in local currency)

Fixed Income	Yield	1M %	1 Yr %
US 10 Yr	0.53%	0.9%	13.8%
UK 10 Yr	0.10%	0.5%	4.9%
Swiss 10 Yr	-0.54%	0.7%	-2.4%
German 10 Yr	-0.52%	0.4%	0.2%
Global IG (hdg \$)	1.57%	2.6%	9.0%
Global HY (hdg \$)	5.97%	3.6%	1.3%

Equity Index	Level	1M %	1 Yr %
S&P 500	3,271	5.6%	11.9%
MSCI UK	9,762	-4.5%	-20.7%
SMI	10,006	-0.4%	4.3%
Eurostoxx 50	3,174	-1.5%	-5.9%
Nikkei	21,710	-2.6%	3.0%
Hang Seng	24,595	1.5%	-8.2%
MSCI World (lcl)	265	4.0%	6.2%
MSCI World (\$)	3,271	5.6%	11.9%

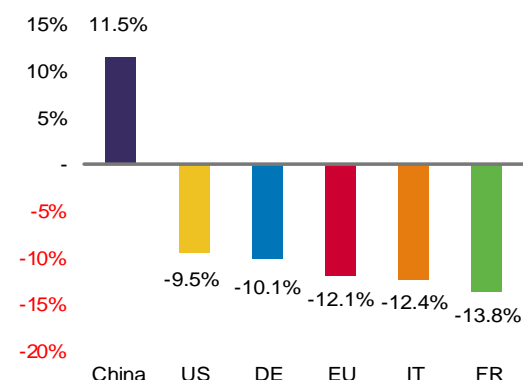
Currencies (trade-weighted, nominal)

	1M %	1 Yr %
US Dollar	-2.1%	1.6%
Euro	2.6%	5.5%
Yen	0.6%	2.1%
Pound Sterling	2.9%	4.6%
Swiss Franc	0.5%	4.2%
Chinese Yuan	-1.4%	-1.7%

Other

	Level	1M %	1 Yr %
VIX	24.5	-19.6%	51.7%
Brent (\$/b)	43.3	5.2%	-33.6%
Gold (\$/oz)	1,976	10.8%	38.7%

Q2 Real GDP (q/q %, SA)



Source: Bloomberg, Rothschild & Co



Important information

This content is produced by Rothschild & Co Wealth Management UK Limited for information purposes only. This content does not constitute a personal recommendation or an offer or invitation to buy or sell securities or any other banking or investment product.

Nothing in this content constitutes legal, accounting or tax advice. The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance should not be taken as a guide to future performance. Investing for return involves the acceptance of risk; performance aspirations are not and cannot be guaranteed. Should you change your outlook concerning your investment objectives and/or your risk and return tolerance(s), please contact your client adviser. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down.

Income may be produced at the expense of capital returns. Portfolio returns will be considered on a "total return" basis meaning returns are derived from both capital appreciation or depreciation as reflected in the prices of your portfolio's investments and from income received from them by way of dividends and coupons.

Holdings in example or real discretionary portfolios shown herein are detailed for illustrative purposes only and are subject to change without notice. As with the rest of this content, they must not be considered as a solicitation or recommendation for separate investment.

Although the information and data herein are obtained from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made and, save in the case of fraud, no responsibility or liability is or will be accepted by Rothschild & Co Bank AG as to or in relation to the fairness, accuracy or completeness of this content or the information forming the basis of this content or for any reliance placed in this content by any person whatsoever. In particular, no representation or warranty is given as to the achievement or reasonableness of any future projections, targets, estimates or forecasts contained in this content. Furthermore, all opinions and data used in this content are subject to change without prior notice.

This content is distributed in Switzerland by Rothschild & Co Bank AG and in the UK by Rothschild & Co Wealth Management UK Limited. Law or other regulation may restrict the distribution of this content in certain jurisdictions. Accordingly, recipients of this content should inform themselves about and observe all applicable legal and regulatory requirements. For the avoidance of doubt, neither this content nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. References in this content to Rothschild & Co are to any of the various companies in the Rothschild & Co Continuation Holdings AG operating/trading under the name "Rothschild & Co" and not necessarily to any specific Rothschild & Co company. None of the Rothschild & Co companies outside the UK are authorised under the UK Financial Services and Markets Act 2000 and accordingly, in the event that services are provided by any of these companies, the protections provided by the UK regulatory system for private customers will not apply, nor will compensation be available under the UK Financial Services Compensation Scheme. If you have any questions on this content, your portfolio or any elements of our services, please contact your client adviser.

The Rothschild & Co group includes the following wealth management businesses (amongst others): Rothschild & Co Wealth Management UK Limited. Registered in England No 04416252. Registered office: New Court, St Swithin's Lane, London, EC4N 8AL. Authorised and regulated by the Financial Conduct Authority. Rothschild & Co Bank International Limited. Registered office: St Julian's Court, St Julian's Avenue, St Peter Port, Guernsey, GY1 3BP. Licensed and regulated by the Guernsey Financial Services Commission for the provision of Banking and Investment Services. Rothschild & Co Bank AG. Registered office: Zollikerstrasse 181, 8034 Zurich, Switzerland. Authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).