

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%

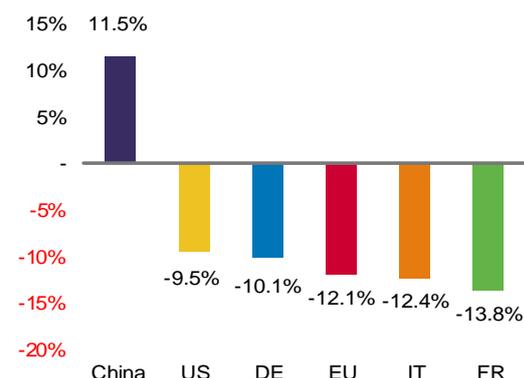
Equity Index	Level	1M %	1 Yr %
S&P 500	3,271	5.6%	11.9%
MSCI UK	9,762	-4.5%	-20.7%
SMI	10,006	-0.4%	4.3%
Eurostoxx 50	3,174	-1.5%	-5.9%
Nikkei	21,710	-2.6%	3.0%
Hang Seng	24,595	1.5%	-8.2%
MSCI World (lcl)	265	4.0%	6.2%
MSCI World (\$)	3,271	5.6%	11.9%

Currencies (trade-weighted, nominal)

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



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