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8th June 2020

Market Update

Stock markets have continued their strong rally this week as a number of encouraging economic readings cheered investors. The FTSE 100 has now touched 6,500. Still a long way short of the 7,500 level at which it started the year, but a huge gain from the 5,000 mark at the worst of this crisis.

Recent days have also seen a changing of the guard in terms of performers, with economically sensitive sectors leading the charge higher, boosted by optimism surrounding the potential recovery. While too early to call a trend, if it continues this could be a significant turning point for 'value' sectors, which have largely been shunned so far in the recovery.

Reasons to be Cheerful

Last week's rally was boosted on Friday with the release of data showing that 2.5million jobs were created in the US in May, which was a major positive surprise. Markets had been predicting net job losses for the month, continuing the trend of massively rising unemployment that was seen in March and April. Many of the job losses over this time had been reported as temporary layoffs, and therefore this result can be seen as fulfilling the potential for recovery that exists. This is an encouraging sign that the world's largest economy may be positioned for a relatively sharp bounce back from the coronavirus lockdown.

Oil markets too are experiencing further good news with Opec and Russia agreeing to extend huge production cuts until at least the end of July. These cuts were originally agreed in April as a way to fight the slump in demand from Covid-19 shutdowns and which led to negative oil prices. With prices now recovering to around $40/barrel, the oil cartel members appear satisfied that production cuts are the best course of action.

Reasons to be Fearful

Amid this positivity it would be easy to get carried away, but it is important to remember that investor sentiment can be fickle and there are plenty of negative stories around which could well trigger a regression. German industrial production is one such development. Figures released today showed an 18% contraction in April, the largest fall since records began in 1991, with the heart of Germany's economy seeing a collapse in demand.

Data for the UK also paints a difficult picture, with a large drop in the number of job vacancies being advertised, especially after roles in the care sector are excluded. With many jobs being supported by the Coronavirus Job Retention Scheme, there is fear of a major surge in unemployment when furlough is wound down from August.

While the number of new virus cases continues to fall around the world, as lockdowns ease there is the real risk of a second spike of infections. Data has been reasonably promising so far, but with economic reopening set to accelerate in the coming weeks, we are at a delicate time in the management of this crisis. A further complicating matter is the large scale anti-racism protests occurring across the US and also increasingly in other countries, including the UK. While many protestors can be seen wearing facemasks it seems likely that such large crowds gathering in such close proximity will cause an increase in the transmission rate.

…And Brexit

Finally, turning our attention to Brexit negotiations and, as expected, the final scheduled round of talks concluded on Friday with little progress made. With the mandates of the negotiating teams seemingly incompatible, concessions are now required on the part of politicians. Such a breakthrough remains a possibility, especially given the planned talks between Boris Johnson and Ursula von der Leyen later this month. But, as each round of talks passes without progress, the chance of a comprehensive trade deal reduces, increasing the likelihood of either a barebones deal, or no deal. Consequently, markets are likely to grow increasingly uneasy on these developments.

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