Market Update

Chinese Cheerleaders

Recent weeks have largely been trendless for investment markets with the FTSE 100 bouncing in the range of 6,100 to 6,300. Investor optimism has been fleeting, with a new reason seemingly daily as to why the recovery is intact, or why a second crash is imminent. On the positive side, examples include significant promise in the early stages of vaccine development, or promising jobs data. On the negative side have been stories of resurgent infection numbers in southern US states and forecasts of ballooning public debt levels following Covid-19 rescue packages. On Monday 6th July there was a particularly novel cause for strong market performance, however; a front page editorial in a Chinese state owned newspaper talking up the prospects of a bull market and encouraging investors to jump on-board. This then led to the biggest daily jump in Chinese shares in more than a year and provided enough optimism for markets in other countries to join the party. A welcome gain in asset values of course, but it must be acknowledged that cheerleading is not the most sustainable of justifications for rising prices.

One Country, One System

Not all Chinese action over the week has been welcomed, conversely. China's new national security law came into force last week, with the result being that any dissent on Chinese rule of Hong Kong can now be heavily punished. The implications were obvious, with the leaders of Hong Kong's independence movement quickly accepting defeat. From the UK's perspective, this is a clear breach of the One Country, Two Systems approach that was promised at the point of handover from UK to Chinese rule. In response, as well as stern condemnation, the UK has offered a route to British citizenship for approximately three million Hong Kong residents. China's response to this offer is to accuse the UK of "gross interference".

This is an important example of weakening global harmony, of which the UK is firmly part. Consider also the direction the UK government is taking with the banning of Huawei from the UK's 5G network and a path of divergence appears set. A world away from 2015's "Golden Age" of China-UK relations. While markets have largely shrugged their shoulders at this development, with the West increasingly turning their back on the World's second largest economy, this is a topic that has the potential to cause large flashpoints in the coming years.

Haircut, Pint…New House?

After months in the deepfreeze, the UK economy saw a major turning point on Saturday with the largest easing of restrictions so far. Data shows that the average household has been saving large sums over this period and now the opportunity to spend is returning. On the to-do lists of many over the weekend would have been a trip to the hairdresser and a trip to the pub. Such consumer spending is going to be vital for our economic recovery. With social distancing measures in place, however, there will be major impediments to profits being delivered and pre-Covid activity levels will remain a long way off.

Rishi Sunak, Chancellor, must face this challenge. He is due to speak on Wednesday, and is expected to announce a range of support packages aimed at restoring economic confidence and encouraging spending. The focus appears to be on the young, who are expected to be the hardest hit financially by this crisis. Schemes aimed at delivering training and employment appear top of the list, along with an expected VAT cut for the hospitality sector.

Also in the pipeline, apparently, is the prospect of stamp duty holiday, though this may not come until later this year. Aimed at enabling the young the join the housing ladder, an important side effect will be a recovery in house price growth throughout the housing market. While consumers are largely sitting on cash, they need confidence in the economy to part with their savings. For current homeowners, the feeling of prosperity which accompanies rising property values could well be the catalyst.

6th July 2020

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