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FINANCIAL ADVISERS

Your news update

July 2020

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Introduction

Welcome to your monthly newsletter.

As we write this, the UK is beginning to emerge from a period of unparalleled restrictions. Aided by long summer evenings and (hopefully!) warm weather, we should all feel a sense of freedom that we haven't felt for some time.

Of course, whether measures continue to be relaxed rests on that all important 'R' number, but with the government having lowered the country's alert level from 4 to 3 at the end of June, we remain optimistic.

As always, we will maintain a close eye on the situation and will keep you informed about major developments. In the meantime, we hope you enjoy the read and please do get in touch if there is anything you would like to discuss.

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United Kingdom

Economy

Unsurprisingly, June was a month where there was plenty of bad news in the UK, even as the Government started to ease lockdown. But it was balanced by an equal amount of good news: the Prime Minister ended the month by saying this was '*a moment to be ambitious*' and there is unquestionably plenty of light at the end of the tunnel.

Let's deal with the gloomier news first and that, almost inevitably, means starting on the high street.

Figures published early in the month showed that May had been another very difficult month for UK retail. Once again, a significant amount of business moved online, but it failed to offset the fall in the shops, with total sales down 5.9% on the previous year.

Most tellingly, Britain's retailers paid just 13.8% of their rent for the quarter as rent receipts on 24th June – the day commercial tenants' rents were due for the quarter – fell even lower than the March figure, when 20% of rent payments were made. Estimates suggest that £2.15bn of commercial rent was unpaid for the June quarter.

Inevitably, there was also bad news on the jobs front, with the UK's furlough scheme covering nearly 9m workers by the middle of the month and a steady stream of companies making job cuts. With the two metre rule now revised to 'one metre plus', the industry started trading again on 4th July.

To complete the bad news, house prices fell at their fastest rate since 2009. City AM reported that 1 in 7 business owners were using their personal savings to keep their businesses afloat and official figures showed that the economy had shrunk by 20.4% in April.

But now the good news. The Prime Minister announced a £5bn 'new deal' focusing on jobs and infrastructure. This included £900m for 'shovel ready' projects this year and next year.

This was followed by a Summer Economic Update from the Chancellor on 8 July. Rishi Sunak presented a raft of measures designed to protect, support and create jobs including a Jobs Retention Bonus incentive for employers, a cut in the VAT rate for hospitality and tourism businesses and a Kickstart Scheme for young people.

Speaking on 30th June, Bank of England economist Andy Haldane said that the UK economy was still on course for a quick, V-shaped recovery, with the recovery in the UK and globally having come "*sooner and faster*" than expected. There were certainly two pieces of good news on the jobs front, with Toyota choosing the UK as its export hub for the new hybrid it is building and the European Space Agency picking Leicester for its space tech incubation centre.

Market

The FTSE 100 index of leading shares did manage a modest rise of 2%. Having started the month at 6,077 it closed the month at 6,170. The pound was unchanged in percentage terms against the dollar, ending June at $1.2388.

Brexit and Europe

Brexit

The whole month can probably be summed up in the same three words uttered by EU chief negotiator Michel Barnier after the first round of talks: "*no significant progress*."

Boris Johnson declared that he wanted to "*fix the unfair withdrawal agreement*" and Barnier responded by saying that the UK could not 'cherry pick' in the negotiations. But amid all the soundbites, one important date came and went. 30th June was the last date on which the UK could request an extension to the transition period. As expected, no such extension was requested, meaning that the UK is now committed by international law to leaving the EU on 31st December this year.

Meanwhile, the UK and Japan began talks aimed at reaching an agreement on a post-Brexit trade deal to replace the agreement the countries currently have through Britain's membership of the EU.

Europe

From a news point of view, it was a relatively quiet month in Europe. To no one's surprise, the European Central Bank sharply cut its growth forecast for the year, and now expects the Eurozone economy to contract by 8.7% this year – against the 0.8% growth forecast in March. It did, though, raise growth projections for the next two years, forecasting growth of 5.2% in 2021 and 3.3% in 2022.

The European Central Bank was again active in trying to boost the Eurozone economies, and announced that it would increase its bond buying programme (quantitative easing as it is sometimes known) by €600bn (£544bn) to €1.35tn (£1.22tn) with the programme running to June 2021, six months later than originally planned.

The month ended with bad news for the European aircraft industry as Airbus said that it planned to cut 15,000 jobs. Although 1,700 of these will be in the UK, it is likely that the majority of the cuts will be in Europe, with reports suggesting that Germany and Spain will suffer the brunt of the cuts.

Despite all this, June was a good month for the two major European stock markets. The German DAX index rose by 6% to 12,311 while the French stock market was up 5% to 4,936.

United States

Economy

The month in the US started with the news that nearly 43m Americans were now claiming unemployment benefit. However, there was some optimism as the employers added 2.5m jobs in May and the unemployment rate dropped to 13.3%, compared to the 14.7% recorded in April. This was due to firms in the food, construction and healthcare sectors hiring staff again as lockdown was eased.

The optimism may have evaporated by the middle of the month, though, as a further 1.5m people filed for unemployment benefit – the 13th week in a row with over a million new claims. Experts are now expecting the US unemployment rate to be around 9% by the end of the year, close to the high set in the aftermath of the 2008 financial crisis.

Like every other major economy, the US is now officially in recession. The country's National Bureau of Economic Research formally announced it in early June, saying that economic activity had steadily fallen since a 'clear and well-defined peak' in February. This brought a decade of economic expansion to an end – the longest in US history.

The Federal Reserve duly reminded US banks that they 'needed to stay prudent,' warning that they could suffer losses of up to $700bn (£564bn) if the pandemic led to a severe downturn.

Retail

As if to emphasise the point, retailer Gap posted a $932m (£751m) loss for the three months to May, compared to a $227m (£183m) profit for the same period last year.

Clearly what Gap needs to do is switch to making electric pick-up trucks. June saw truck maker Nikola listed on the Nasdaq stock exchange and – despite having nil sales to date – it raced to a valuation of $26bn (£21bn), making it worth more than industry stalwarts Fiat Chrysler.

Market

the US stock market duly took its cue from Nikola rather than Gap. Despite worries about a second spike of the virus – especially in states like Texas, California and Florida – the Dow Jones index ended the month up 2% at 25,813. From next month, we will also report on the more broadly-based S&P 500 index, which closed June at 3,100.

Global

Far East

China seemed to be at odds with everyone in June. There were disputes with both India and Australia and the month ended with the Chinese government passing the controversial Hong Kong security law. The law gives Beijing wide-ranging powers over Hong Kong and has already been implemented. There seems little doubt that it will increase tensions with the US.

It was also another month of controversy around Chinese telecoms giant Huawei. The US Defence Department claimed it was one of 20 top Chinese firms owned or backed by the military. In the UK, a new security review could see the government ban the use of Huawei's equipment in the country's 5G network: Huawei responded with a newspaper and internet charm offensive saying it was 'as committed as ever' to providing the best possible equipment to the UK.

HSBC was also doing its share of worrying during the month, fearing reprisals in China if the UK takes action against Huawei. Both HSBC and Standard Chartered publicly backed the new Hong Kong security law.

The UK duly opened trade talks with Japan and despite all the tension and conflict it was a good month for the region's stock markets. China's Shanghai Composite index rose 5% to 2,985 and the Hong Kong market did even better, climbing 6% to 24,427. The South Korean market was up 4% to 2,108 and Japan's Nikkei Dow index gained 2% at 22,288.

And then, on the last day of the month, came news of a new flu virus that has been identified in China. It is found in pigs and "*has the potential to become another global pandemic.*" Sometimes it is difficult to see the glass as half-full…

Emerging Markets

The big news in Emerging Markets in June was the escalating tension between India and China. The middle of the month saw clashes in a disputed Himalayan border region, with reports suggesting that up to 20 Indian troops had been killed in the fighting.

As the stand-off continued, the Indian government banned 59 Chinese apps – including social media platform TikTok – claiming they posed "a threat to the sovereignty and security" of the country.

There might have been a few nods of agreement in Australia, with Prime Minister Scott Morrison saying the country had been the victim of a "sophisticated state-based cyber hack" and many commentators quickly pointing the finger at China.

Across the Pacific there was grim news in Brazil, which became the second country to officially reach 1m cases of Covid-19, with experts predicting that it could ultimately be the country worst hit by the pandemic.

Despite the tension with China and the worries about the pandemic, both the Indian and Brazilian markets enjoyed excellent months. The Indian stock market rose 8% to end June at 34,916, while Brazil went one better, gaining 9% to 95,056. By contrast, Russia, the other major emerging market on which we report, had a subdued month, rising just eight points to 2,743.

In other news

Worth the wait?

With lockdown easing in the UK and across Europe, there are worrying signs of sanity breaking out – assuming that your definition of sanity is queueing for four hours to get into Ikea. As the Warrington store re-opened at the beginning of the month, shoppers began arriving at 5:40 in the morning for a 9am opening!

Lockdown woes

Then again, they may simply have been trying to escape their other halves. Lockdown has – unsurprisingly – brought a surge in demand for rental property as many couples decided they didn't want to be locked down together anymore.

Love it or hate it

If you were a Marmite lover, the month got even worse. Surging demand for brewer's yeast during lockdown meant that manufacturers Unilever were only able to produce 250g jars. "I need Marmite like oxygen, really need more 400g squeezy jars," tweeted a desperate Tim as he set off round all his local shops.

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