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mha CARPENTER BOX
FINANCIAL ADVISERS

Your news update

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Introduction

Welcome to your monthly newsletter.

We are now eight months into a year that has been like no other. While social distancing measures will be around for a while longer, it finally seems as if a new normal is emerging.

We find ourselves feeling much freer than we have for a long time and able to do many of the things we sorely missed during lockdown. Although many events that mark August in Britain – like the Edinburgh Fringe Festival – aren't going ahead this year, we are now able to get fully into the swing of summer time.

As has been the case for the last six months, the situation both globally and nationwide remains fast changing. Despite the fact that lockdown measures are being relaxed, the virus is still in circulation. We hope that you take care and stay alert while enjoying the summer. Whether you're taking a 'staycation' or remaining at home, we wish you a pleasant month.

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United Kingdom

Economy

On 8th July – almost four months to the day after his March Budget speech – Chancellor Rishi Sunak delivered his Summer Statement.

The Chancellor announced a "£30bn plan for jobs." The country would, he said, be defined "not by the crisis, but by how we respond to the crisis."

As the Chancellor waits to see how the economy begins to recover before he unveils his Autumn Budget, the Summer Statement will act as something of a holding measure.

In the meantime, he will have plenty to ponder on. With the furlough scheme now gradually coming to an end, the job losses continue to mount, with 12,000 jobs going in two days at the beginning of the month and estimates at the end of July suggesting that lockdown has cost pubs and restaurants £30bn of turnover.

More worrying, perhaps, are suggestions that many firms which might otherwise have folded have been artificially kept afloat by loans and grants from the government. The rate of insolvencies has slowed since March, but the Institute of Fiscal Studies is suggesting that many of these 'zombie companies' will struggle to repay the new debts they have incurred.

Car production in the UK slumped to its lowest levels since 1954 and although consumer confidence edged up from its record low, confidence among small firms declined sharply. More than a fifth of the UK's small firms expect their performance to be "much worse" over the next three months, with 75% of firms reporting that their profits fell in the last three months, up 33% on the same quarter last year.

Optimistically, the Bank of England is now suggesting that an "uneven" recovery has begun. There seems little doubt now that the supposed 'V-shaped recovery' will not happen, and that some sectors of the UK economy will continue to struggle for some time. The latest research is suggesting that shareholder payments via dividends could take six years to recover.

There were tensions between the UK and China over Huawei's involvement in the country's 5G network, and this led to inevitable counter charges from China and threats of reprisals against UK companies.

Market

With all of this news, it was hardly surprising that the UK's FTSE-100 index of leading shares fell in the month. It was the worst performing of all the markets on which we report, dropping 4% in July to end the month at 5,898.

With the dollar having its worst month for ten years, the pound rose sharply against it and ended the month up 6%, trading at $1.3098.

Brexit and Europe

Brexit and trade deals

You may be familiar with the Sherlock Holmes story 'Silver Blaze' and Holmes' famous quote that 'the curious incident was that the dog did nothing in the night.'

July was virtually a 'curious incident' month for Brexit and any subsequent trade deal with the EU. With all attention still focused on Covid-19 and several of the leading participants due to go on holiday, August may well follow suit.

There are now five months to go until the UK leaves the European Union, and it is looking increasingly likely that it will be without any formal deal. In the middle of the month, the Guido Fawkes political blog reported that both major trade deals – with the EU and the US – are '*expected to miss their deadlines and not be concluded by the end of the year*.'

Europe

On 17th July, Europe's leaders met to try and thrash out a post-Covid-19 recovery deal. Hopes prior to the meeting were, apparently 'not high.'

The talks went into a fourth day but – after Europe's longest meeting since 2000 – the objections of the 'frugal four' (the Netherlands, Austria, Sweden and Denmark) were overcome and a deal was eventually reached.

Some hailed it as a victory for closer European integration but it is fair to say that there were also plenty of sceptical voices arguing that the North/South rift in the EU had widened and that the extra spending commitment – estimated at €1.8tn (£1.6tn) over the next seven years – was unsustainable given the expected contraction in the European economy.

We have written above about the decline in the UK car industry. Sadly that is a pattern being repeated right across Europe, with German car production falling by 44% in the first five months of the year and 100,000 jobs thought to be at risk.

The German economy shrank at its fastest rate on record in the second quarter, declining by 10.1% between April and June – the sharpest fall since Germany began producing quarterly figures in 1970.

On the stock markets, it was a very quiet month for the German DAX index which rose just two points in the month to close June at 12,313. The French market fared less well, falling by 3% to end the month at 4,784.

United States

Economy

The month started well in the US – figures showed record jobs growth in June as firms started re-hiring and 4.8m jobs were added – but all the news in the month was overshadowed by the second quarter figures.

The US economy suffered its worst ever fall in the April to June quarter, with GDP falling a historic 32.9%. You could put a positive spin on the figures by arguing that the consensus among economists had been for a fall of 34.7%, but the simple fact is that neither the Great Depression nor any other slump in the past 200 years has seen such a sharp contraction in the US economy.

The figures, "*just highlight how deep and dark the hole is that the economy cratered into*" said Mark Zandi, chief economist at Moody's Analytics.

At the end of the month, Republicans in the Senate proposed spending a further $1tn (£769bn) to help fix the 'hole,' with proposals including $100bn (£77bn) for schools and a stimulus payment of $1,200 (£923) to most Americans. The US has already spent more than $2.4tn (£1.85tn) in virus relief measures.

The Federal Reserve duly repeated its vow to protect the US economy, but admitted that the long term health of the economy was bound up with the long term path of Covid-19. This continued to suppress domestic demand through July as individual states imposed renewed lockdown measures.

Retail

In other news, Tesla overtook Toyota to become the world's most valuable car maker as its shares rose again.

Market

The US stock market duly took its lead from Tesla rather than the bad economic news. The Dow Jones index was up 2% in July to 26,428 while the more broadly based S&P500 index rose 6% to 3,271.

Global

Far East

July in the Far East – leaving aside the tensions over Hong Kong – was, perhaps, a tale of two companies and the impact lockdown had on them.

At the end of the month, Japanese car maker Nissan warned of a record loss. The company said that the virus had hindered its 'turnaround' efforts, with sales slumping by 48% in the April to June period. It estimated the loss for the year at £3.5bn, with its shares unsurprisingly falling 10%.

It was exactly the opposite story in South Korea as Samsung's sales soared on the demand that has been created by working from home and home schooling. The world's largest maker of smartphones said second quarter profits were up 23% on last year, with the results helped by strong demand for computer chips.

If the news in July was bad for Nissan, it was also bad for the wider Japanese economy, which went into recession. Household spending in May was 16.2% down on the same period in 2019, the sharpest rate of decline since comparable data began in 2001.

Despite the good news from Samsung, the South Korean economy was also in recession, with exports – which account for 40% of the economy – at their lowest level since 1963.

We have already discussed the tensions surrounding China: those don't appear to be reflected in the Shanghai Composite index which rose 11% in the month to close July at 3,310. The South Korean market also defied the bad news, climbing 7% to 2,249.

The Hong Kong market posted a more modest 1% rise, closing at 24,595 while Japan's Nikkei Dow index was down 3% to 21,710.

Emerging Markets

It was a quiet month for news in the emerging markets we cover in the market commentary. The most noteworthy event occurred in Russia, where Vladimir Putin effectively became 'President for Life.'

In a referendum – held over seven days because of Covid-19 – nearly 80% of voters apparently backed an amendment to the constitution which will allow Mr Putin to run for two more terms as President. He had been due to stand down in 2024, but will now effectively remain President until 2036, when he will be 83.

July was a good month for Mr Putin and a very good month for the three major emerging markets on which we report. The Indian stock market rose 8% to 37,606 and Brazil's market was up by the same percentage to 102,912. The Russian stock market rose 6% in the month, ending July at 2,912.

In other news

Socially distanced hot dogs

There cannot be anyone reading the market commentary who has not now heard the term 'social distancing' – or noticed its inevitable impact on sporting events.

One such event to suffer from a lack of spectators was July's hot dog eating contest in the US. Every year thousands of people flock to Coney Island for this great sporting contest. They pack the beach in their thousands, cheering on the competitors.

Until this year…

This year, of course, the hot dog eating contest had to be socially distanced and was duly held indoors. The good news is, despite the lack of support, records were broken in both the men's and women's categories. Winning the men's contest for the 13th time, Californian Joey "Jaws" Chestnut swallowed an impressive 75 hot dogs in ten minutes. Miki Sudo, from Connecticut, won the women's title, downing 48½ hot dogs.

Speaking after the contest, 36 year old Mr Chestnut said, "*One of the best things about this contest is the energy the audience brings. There's been years when I don't feel my best and the audience pushes me.*"

Flying ants

Staff at the Met Office mistook a huge cloud of flying ants for rain. In a tweet, the confused Met Office wrote, "*It's not raining in London, Kent or Sussex – but our radar says otherwise.*"

Lockdown habits

Figures were released during July showing that we spent £40.6bn trying to cheer ourselves up during lockdown, with consumers spending an average £771 each. As you'd expect, takeaway food and alcohol were high on the list.

But Barclaycard also revealed that consumers bought an inflatable pub, a penny farthing and an antique diving suit.

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