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October 2020 Market Update

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September was a difficult month for world stock markets. It was one of those rare months when none of the markets we report on managed to gain any ground as fears of a second wave of the Covid-19 pandemic sparked a global sell-off in shares. It was also another month of bickering as tensions continued between India and China.

Central bankers, policy makers and town planners around the world resigned themselves to the fact that another prolonged period of people working from home might well do irreversible damage to city centres as what has been described as the 'trillion dollar office economy.' 'From airlines to Starbucks to shoe repair shops, a massive part of our economy hinges on white collar workers returning to the office,' wrote one US journalist.

September was also the month when banking giant HSBC was caught up in a money laundering scandal, when the 'rule of six' in the UK looked like it had become the 'rule of six months' and when the Treasury cancelled the Chancellor's traditional Autumn Budget.

As always, we look at all the details below…

UK

September saw Chancellor Rishi Sunak present a very brief 'Winter Economic Plan' in place of the Autumn Budget. He continued his focus on protecting jobs and businesses but the rhetoric of March of: "we will do whatever it takes" is long gone and has very much been replaced with doing "whatever we can."

His focus was on protecting 'viable jobs' and, as the furlough scheme ends, you sadly suspect that millions of jobs will be lost, especially in sectors such as hospitality and tourism.

Accountants KPMG cheerfully predicted that the UK economy would not fully recover from the Covid-19 crisis before early 2023, with their quarterly economic outlook suggesting that UK GDP could be down by more than 10% this year.

Was there any good news in September? Surprisingly, yes. Rishi Sunak made it clear to backbench MPs that the UK "would not be hit by a horror show of tax rises" as he looks for ways to pay for the £160bn the Government has so far spent in this crisis.

The Chancellor's 'Eat out to help out' scheme was reported to have served more than 100m meals in August at a cost to the Treasury of £522m and helped push inflation to a five year low, as it dipped to 0.2% in August from the 1% recorded in July.

Work also started on HS2, with the companies behind the project expecting to create 22,000 jobs in the next few years. Many people remain sceptical, but Boris Johnson said that the project would "fire up economic growth and help to rebalance opportunity."

The bosses of some of the UK airports had a rather less charitable view of Government initiatives, though, accusing ministers of "overseeing the demise of UK aviation" by not having clear plans for Covid-19 testing at airports.

So, what of the UK's retail sector and the seemingly inevitable job losses?

Starting on a positive note, Lego began the month saying that it was on course to open 120 new stores this year and declaring that 'bricks and mortar stores have a solid future.'

Unfortunately the glass was very quickly back to half-empty as vacant shops in London reached a six year high, footfall dropped sharply in August despite 'back to school' shopping and Costa threatened 1,650 redundancies.

There was more bad news in the middle of the month as New Look warned landlords it could collapse without further rent reductions. Figures showed that UK payrolls shrank by 695,000 in

August and the 10pm curfew brought into guard against a second wave of Covid-19 was labelled 'disastrous' for the UK's night-time economy.

What is clear is that the pandemic has accelerated trends which might otherwise have taken 20 or 30 years to arrive. With people now working from home more, the 'commuter economy' (or 'office economy') may never recover. We are all ordering things online we previously bought in the high street and, like Tesco, last month Amazon announced that it would create a further 7,000 new jobs to meet this growing demand.

Unsurprisingly in a month when nearly all the major world stock markets fell, the FT-SE 100 index of leading shares took its cue from worries about job losses and a second wave of the pandemic, and fell 2% in September to close the month at 5,866. The pound was also down against the dollar, falling 3% to end the month trading at $1.2935.

Brexit & possible trade deals

We started the 'Brexit' section of this Bulletin after the referendum in 2016. The UK has now left the European Union and if no agreement is reached will start trading with the EU on World Trade Organisation terms at the end of this year. That is in three months' time and would in normal times be making the headlines.

But, as we all know, these are not normal times, and the Brexit section of our notes has shrunk significantly. Nevertheless, September was a busy and potentially significant month.

Prime Minister Boris Johnson started the month by saying that a 'no deal' exit from the EU would be a "good outcome" as the EU threatened to block exports from Great Britain to Northern Ireland. The middle of the month saw the leaking of a report which suggested that lorries would need an 'access permit' to enter Kent amid fears of queues of 7,000 lorries. Some campaigners characterised the plans as being tantamount to an 'internal UK border.'

By the end of the month, the chances of a deal with the EU were said to be "improving," with senior Cabinet figures fearing what 'no deal' and a second wave of Covid-19 could do to the economy, and pressurising the PM to get a deal done. Both sides are now reportedly ready to make concessions.

While all this was going on, the UK did agree a trade deal, signing its first post-Brexit agreement with Japan. Government sources suggested that the deal will see trade with Japan increase by £15.2bn as UK businesses benefit from tariff-free trade on 99% of exports to the world's third-largest economy.

Europe

The number of Covid-19 deaths has now passed one million worldwide. The last pandemic on this scale was the Spanish Flu outbreak, which lasted from February 1918 to April 1920 and infected 500m people at the time. This was about a third of the world's population in four successive waves.

We may, therefore, have some time to run with the present pandemic, and a story in the middle of the month suggested that Italy, a country with an already parlous banking system, could face an 'economic catastrophe' if there is a prolonged downturn in tourism.

Estimates suggest that the Italian economy could lose €24.6bn from overseas tourism, with domestic travel spending projected to fall by €43.6bn. Cities such as Florence, Venice and Rome are expected to be particularly badly hit. No one quite knows what will happen to the wider Italian economy, especially if the pandemic were to mirror the longevity of Spanish Flu. A similar story could no doubt also be told for other European countries heavily dependent on tourism, such as Portugal, Spain and Greece.

Italy did at least manage to save some money in September. Nearly 70% of Italians who turned out to vote in a constitutional referendum supported a move to cut the number of MPs in their lower house of parliament from 634 to 400, and the number in the senate, the upper house, from 315 to 200.

The Milan stock market was unimpressed by this prudent cost-cutting measure. Having closed August at 20,195, it fell nearly 6% in September to end the month at 19,015. The major European indices did, though, fare a little better. Germany's DAX index was down 1% to end September at 12,761 while the French stock market fell 3% to 4,803.

US

The month in the US ended with the first Presidential debate. To say it was bad-tempered is an understatement. One commentator suggested that the winners of the debate were the people that didn't watch it. But by this time next month we will be a few days away from the election between Donald Trump and Joe Biden and their widely differing views on the future direction of the US economy.

As far as September was concerned, the month started well for video conferencing company Zoom, which saw its revenues more than triple for the three months ending 31st July with customer growth up 458% on the same period last year. Profits more than doubled to $186m (£145m).

…But if you wanted an even clearer example of the 'new economy' it came from Apple. The company's share price is up 75% this year and, in August, it became the first company to be valued at $2tn (£1.56tn). At the beginning of September, Apple's capitalisation jumped to $2.2tn (£1.71tn), at which point it eclipsed the entire market capitalisation of the UK's FTSE-100 companies.

In the wider US economy, claims for unemployment dropped to their lowest level since the pandemic started and with 1.4m Americans back in work in August, the unemployment rate fell back below 10%.

Worryingly, the US budget deficit reached $3tn (£2.33tn) but the Federal Reserve continued to promise 'prolonged economic help' for the US economy. The Fed said that it expects to keep interest rates near zero 'for at least the next three years' and forecast that the US economy will shrink by 3.5% this year, much less than the 6.5% decline forecast in June.

The US purchasing managers' index reported growth in the private sector in September as 'solid' as the index slipped to 54.4 from the 54.6 recorded in August. Any score above 50 indicates growth.

Sadly, the month did not end with much prospect of growth for 28,000 employees of Walt Disney. The company announced it would be laying them off, citing limited visitor capacity at its theme parks and uncertainty over how long the pandemic would last.

…And US stock markets were more Sleepy and Grumpy than Apple and Zoom in September. The Dow Jones index dropped 2% in the month to 27,782 while the more broadly-based S&P 500 index was down 4% at 3,363.

Far East

The month started with the usual tit-for-tat between China and the United States. Beijing accused the US of 'bullying' its tech firms. A day later the US announced it was to block key exports from China's Xinjiang region due to allegations that they are produced using forced labour as the Trump administration continued to increase pressure on China over its treatment of Xinjiang's Uighur Muslims.

More widely, the Asian Development Bank (ADB) reported that the pandemic had pulled the region into its first recession for 60 years. The ADB said that 'developing Asia', a designation which includes 45 countries, will see its economy shrink by 0.7% this year. However, it expects a strong recovery next year, with growth of 6.8%.

In company news, HSBC shares dived to their lowest level since 1995 amid allegations of money laundering. In 2013 and 2014, the bank reportedly allowed fraudsters to transfer millions of dollars around the world even after learning of their supposed scam. HSBC dryly commented that it had 'met its legal duties.'

HSBC was founded in 1865: the Ant Group is a rather more recent player but in September, the company, backed by e-commerce giant Alibaba and owner of Ant Financial (one of the most valuable fintech firms in the world), announced that it was looking to raise a total of $35bn (£27.3bn) via stock market listings in Shanghai and Hong Kong. If successful, it would eclipse Saudi Aramco as the world's largest ever flotation.

So were the region's stock markets HSBC or Ant in September? As China pledged to go carbon neutral by 2060, the Shanghai Composite index took its lead from the old economy and fell 5% in the month to close at 3,218. Hong Kong's Hang Seng index did even worse, and fell 7% in September to 23,459. However the other two major markets in the region, Japan and South Korea, were both unchanged in percentage terms, closing at 23,185 and 2,328 respectively.

Emerging Markets

It was a month when good news was hard to find in the Emerging Markets section of the Bulletin. The impact of the pandemic saw Australia record its first recession for nearly 30 years, as GDP fell by 7% in the second quarter of the year.

India overtook Brazil as the country with the most confirmed cases of Covid-19, and by the middle of the month, the number of cases in the country had gone past five million. Tensions with China also continued to escalate following its earlier banning of 59 apps linked to China, the Indian government banned a further 118 apps, with the Indian IT ministry saying it had 'credible information that [the apps] were acting against India's interests.'

All the three major emerging markets we cover in the Bulletin were down in September. Brazil led the way, falling 5% to end the month at 94,603. There were smaller falls in Russia – down 2% at 2,906 – and in India where, despite everything, the stock market was down just 1% at 38,068.

And finally…

The world was, we're afraid, a depressingly sensible place in September.

Well, apart from FC Dollendorf-Ripsdorf, who play in the 11th tier of the German football pyramid. During September they tried to get their game with SV Holdenstedt postponed because one of the Holdenstedt players had tested positive for Covid-19.

The authorities weren't playing ball, however, and threatened Ripsdorf with a €200 (£182) fine. They therefore decided to go ahead with the game, but play the minimum number of seven players and observe social distancing throughout the game, refusing to come within two metres of the opposition players.

As a tactic this didn't work terribly well, as Ripsdorf slipped to an unlucky 37-0 defeat.

Sources: https://informedfinancialplanning.co.uk/wp-content/uploads/2020/10/October-Sources.pdf