MARKETS APPEAR IN TWO MINDS OVER RATE OF NEW COVID-19 INFECTIONS

This week we saw further signs that recurring outbreaks of the coronavirus will continue to impact economic recovery. Texas became the first US state to place its plans for reopening on hold as it tries to cope with a surge of new infections and in Germany authorities introduced a localised lockdown to try and contain a large outbreak. This follows China's reintroduction of a curfew in Beijing last week. The economic cost of slower economic recovery was reflected in the International Monetary Fund's revised economic forecast for 2020. The IMF now says it expects global GDP to contract by 4.9 per cent. In April it predicted a contraction of 3 per cent.

PMI data this week saw a rebound in business confidence but financial markets appeared unconvinced. Equities started and ended the week positively but sold off sharply mid-week on news of more coronavirus infections. Trade tension between the US and China and the US and Europe added to uncertainty. The yield on US Treasuries fell in the second half of the week and the dollar appreciated as some investors look for safety.

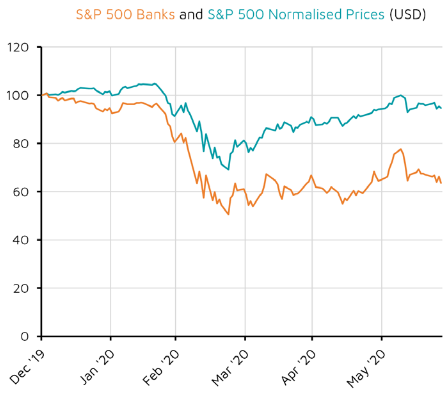
THE MARKETS THIS WEEK

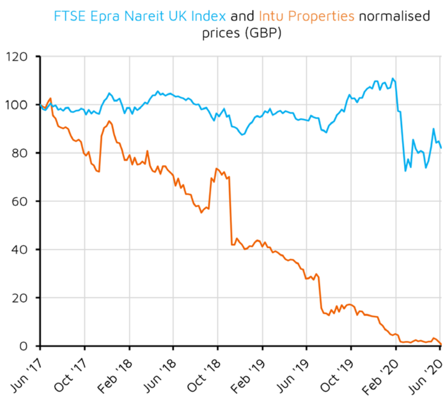
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-1.07%	-1.12%	+0.15%	-0.88%	+0.35%	-0.03%	-0.06%	-2.94%	+1.08%	+0.21%	+0.06%

US: FED CAPS BANK DIVIDENDS AND SUSPENDS SHARE BUYBACKS

The US Federal Reserve has capped US bank dividends and suspended share buybacks over fears of the cost of the economic shutdown due to Covid-19. The temporary measures will limit US bank dividends in the third quarter of the year to no more than the amount each bank paid out in Q2 and share buyback schemes have been suspended for the quarter after stress tests on the country's largest lenders.

The Fed said banks' modelling was 'optimistic' and underestimates the potential severity of the post-lockdown recession. The Fed's own modelling predicts that a worst case 'W-shaped' recession could see banks suffer losses of up to $700bn. Although the Fed said that all the banks it tested would survive the worst-case scenario, several would get very close to their minimum capital requirements. Although the Fed's actions fall short of the complete ban on bank dividends introduced by the European Central Bank in March they show the level of concern about the impact of recession, even as the US continues to lift lockdown restrictions.





UK: INTU IN ADMINISTRATION

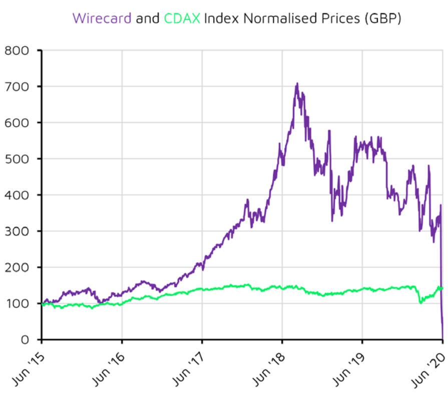
Intu, one of the UK's largest landlords, appointed KPMG as administrators after it failed to agree a temporary suspension of the interest payments on its debt. The company has around £4.5bn of debt and had been trying to agree the terms of temporary relief from its payments. The company wholly owns 14 shopping centres, including the Trafford Centre in Manchester and Lakeside in Essex, and three other joint ventures. Its assets were valued at £6.6bn in 2019. Intu's shares plunged on Thursday to leave it valued at £25m by Friday morning.

Intu's problem pre-date the coronavirus and it has been struggling with its huge debt burden for some time. Its shares have fallen steadily from 350p in 2015 to 25p at the start of 2020. But its problems are an illustration of the problems facing retail landlords. This week was quarter week – when retailers should have paid the next three months' rent. However, with most retailers unable to trade for most of Q2 just 14% of the £2.5bn due was paid.

WIRECARD: CEO ARRESTED AND ADMINISTRATORS CALLED IN AFTER €1.9BN GOES MISSING

A dramatic week for online payments processor Wirecard has seen it to go from the darling of the European tech sector to bankruptcy. At the end of last week Wirecard's auditors raised concerns saying €1.9bn in cash was missing. This week has seen its former chief executive arrested and the company call in administrators. The admission by auditor EY that it could not find €1.9bn owed by a third party was the tipping point for investors after several years of allegations and investigations into the company's operations.

The company has been dogged by allegations that it used fraudulent accounting to inflate the value of business carried out by third party suppliers. Despite these allegations the company had seen its share price continue to rise and it was admitted to the Dax 30 less than two years ago when its valuation peaked at €24bn. This week has seen a precipitous decline in its share value which has fallen from €94 on 1st May to €1.88 today.



Data Sourced from FE Analytics, and Bloomberg Finance LP