RECORD DROP IN GDP AS GLOBAL ECONOMIC RECOVERY SHOWS SIGNS OF STALLING

This week has seen the full extent of the economic damage caused by the coronavirus with the release of the first GDP numbers for the second quarter. The Q1 figures were bad but managed to capture only a few weeks of the shutdown. The Q2 data fully captures when restrictions were at their most severe in Europe and the US and the record falls in GDP have been worse than predicted. The increase in virus cases in Europe and the lack of any progress in tackling the US outbreak has boosted demand for safe haven assets.

The risk-off attitude hasn't yet extended to US equities, where bumper profits from Apple and Amazon have helped give tech stocks a further leg up. US Fed chairman Jay Powell tried to reassure investors, however, he warned that the coronavirus is beginning to impact on the US recovery. With Congress failing to agree a replacement to the $600 a week emergency unemployment benefit, many US households are about to see a sharp reduction in their income in the coming weeks and this will provide a serious headwind for an economy so reliant on consumer spending.

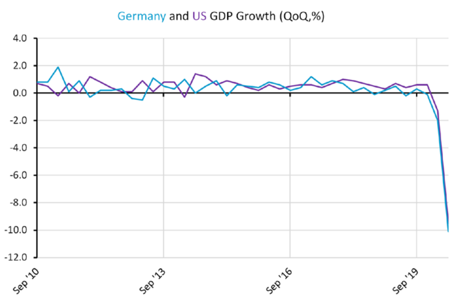
THE MARKETS THIS WEEK

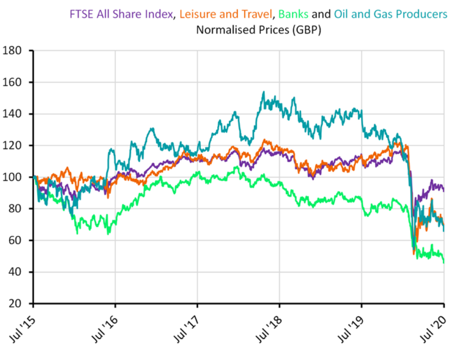
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-2.32%	+0.33%	-4.85%	-2.85%	-0.45%	-0.05%	-0.07%	-1.02%	+3.53%	-1.07%	+2.67%

MACRO: US AND GERMAN GDP SEES RECORD DROP IN Q2

Global stock markets fell and demand for government bonds rose following worse than expected GDP numbers for the second quarter. The US economy shrank by 9.5 per cent in the three months to June, while German GDP dropped by 10.1 per cent. The record drop in economic output shows the scale of the damage caused by the coronavirus shutdown. The fall in output for the US and Germany are the biggest declines on record but Germany has been less affected than other parts of Europe, while the US reopened its economy much faster than many other countries.

The bleak economic data caused a sell-off in equity markets, with European and UK stock markets down 2 per cent yesterday. The value of the dollar also continued to fall this week, while increased demand for government bonds helped push the yield on UK 10-year gilts to an all-time low of 0.07 per cent.





UK: STOCK MARKET SET FOR FIRST MONTHLY DECLINE SINCE MARCH

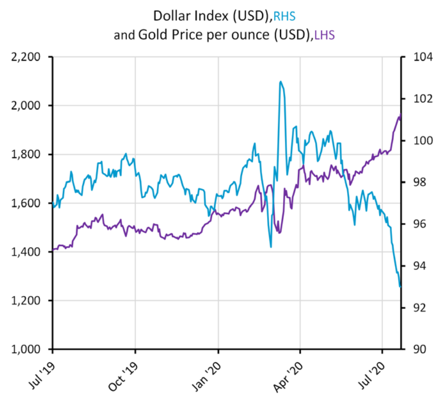
The rally in UK equities appears to have run out of steam and the FTSE All Share is on track for the first monthly decline since March. The index has faced several headwinds this month due to dominance of banks, energy and travel stocks. Oil majors Shell and BP have declined over the month, as Shell announced a second quarter loss of $18.4bn, while the reintroduction of a 14-day quarantine for travellers from Spain caused a big drop in value for airline and travel stocks this week. TUI, easyJet and IAG were all down 10 per cent or more this week.

The big UK banks have also dragged the index down. Lloyds saw its shares fall 8 per cent to hit an eight-year low as it unveiled an increase in the provision for bad loans of £2.4bn for Q2 and announced a pre-tax loss of £676m. The other UK banks have also seen their share values tumble. Barclays, Natwest and Standard Chartered all announced big increases in their provisions for bad loans and they brace themselves for the longer-term impact of Covid-19.

GOLD: NEW ALL TIME HIGH AS INVESTORS SEEK SAFETY

The price of gold has continued its meteoric rise in 2020, hitting an all-time high of $1,980 an ounce earlier this week. Gold is on track for an increase of more than 10 per cent this month and it is up 30 per cent so far this year.

The rise in gold has been helped in recent weeks by the decline in the US dollar, however, the price increase is even more dramatic as it has coincided with a collapse in demand from the usual buyers. Purchases of gold jewellery are down by around 50 per cent, while demand from central banks has fallen by 39 per cent this year. Demand from retail investors for physical gold bars and coins is also down. The big buyers of gold this year are ETFs. Investors inflows in the first six months of this year have exceeded the full year inflows for any previous year as investors prepare for more volatility and with government bond yields so low, the cost of owning gold has also fallen.



This document has been prepared for general information only. It does not contain all of the information which an investor may require in order to make an investment decision. If you are unsure whether this is a suitable investment you should speak to your financial adviser. This information is not guaranteed to be correct, complete, or accurate. Financial Express Investments Ltd, registration number 03110696, is authorised and regulated by the Financial Conduct Authority (FRN 209967). For our full disclaimer please visit https://www.fefundinfo.com/en-gb/about/legal-and-policies/.

Data Sourced from FE Analytics, and Bloomberg Finance LP