TRUMP LOOKS TO PASS THE BUCK AS HOPES OF EARLY RELEASE FROM LOCKDOWN ARE DASHED

This week markets were initially encouraged by the prospect of some relief from restrictive lockdown measures, before having their hopes dashed. To be fair this might have been last week, or possibly a dream about next week, as everything has become a bit blurred. The monotony of our current situation might be getting to us, but it does provide a useful lesson. Nothing has materially changed for a while, nor is it likely to, even if we can now go and sunbathe and the odd garden centre can reopen. Market reactions suggesting otherwise should be viewed with suspicion.

Elsewhere Donald Trump is having something of a meltdown. His usual state often appears to be close to what most people would call a meltdown, but the reality of the presidency is finally hitting home, after almost a full term in office. With zero tolerance for criticism, he is clearly struggling with the fact that when the chips are down the buck stops with him. That this might also cost him the election is prompting a frantic search for a scapegoat, with scientific adviser Anthony Fauci, former president Obama and of course China all attracting blame this week.

THE MARKETS THIS WEEK

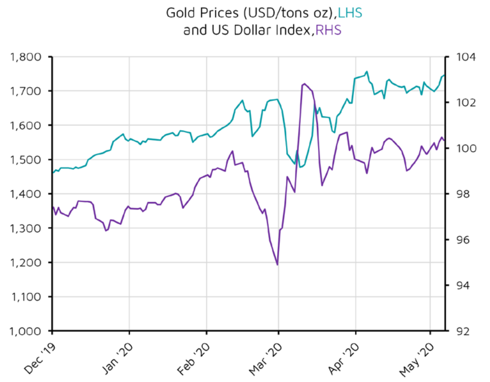
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-1.92%	-1.00%	-0.70%	-4.18%	-1.78%	-0.07%	-0.03%	+6.95%	+1.84%	-5.05%	-1.72%

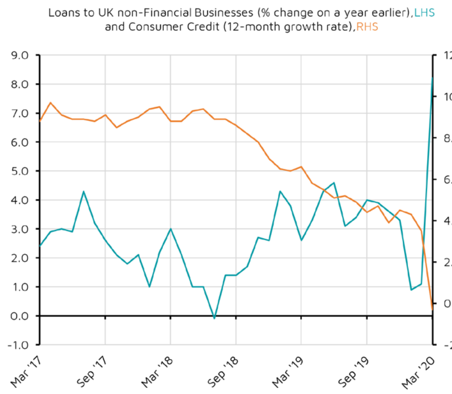
GOLD: BOOST IN VALUE SHOWS LEVEL OF UNCERTAINTY IN THE MARKETS

Gold has been one of the best performing assets in 2020. The search for safety has lifted the price of gold by 14 per cent to just over $1,730 an ounce while gold funds have been some of the better performers so far this year.

That gold is in demand is no surprise, however, the increase in the price of gold is notable given the appreciation of the dollar. Gold usually fares poorly when the dollar is strong - it is priced in dollars so any increase in the dollar pushes up the price for non-US buyers. This year the dollar index is up around 5 per cent, which would normally weigh heavily on gold.

Gold is often used as a hedge against inflation but despite the record levels of market stimulus inflation is unlikely to materialise in the short-term. Instead the rise in the value of gold and the dollar, as well as downward pressure on US Treasury yields, is a strong indication of the level of nervousness in financial markets.





ECONOMY: BUSINESSES RAISE CASH WHILE CONSUMER PAY DOWN DEBTS

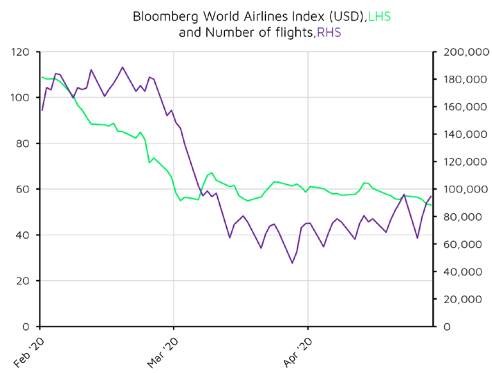
The coronavirus outbreak has caused a sharp divergence in borrowing between businesses and individuals. There has been a surge in corporate borrowing as companies issue new bonds or draw down existing bank borrowing facilities. In the US, more than $200bn of new investment grade corporate debt was issued in both March and April, while in the UK the Bank of England reported new borrowing by businesses hit £55bn in March, a tenfold increase on a typical month.

In contrast, individual borrowing (excluding mortgage borrowing) has dropped as individuals stop spending during lockdown and look to pay down debts. The Bank of England reported the highest levels of consumer debt repayment in 30 years as well as a sharp rise in consumer bank deposits. Both measures mean bad news for economic recovery. Consumer spending is a key driver of economic growth, particularly in the US, while the majority of new borrowing by businesses is to provide working capital to tide them over in the short-term and longer-term investment is being postponed.

EQUITIES: AIRLINES STOCKS STRUGGLE AS UK EYES PASSENGER QUARANTINE

Airlines shares experienced another tumble this week as the government said it will introduce a 14-day quarantine period for international travellers and there were fresh doubts about whether travel restrictions would be lifted in time for the crucial summer holiday season. The airline industry has been one of the worst hit business sectors since the outbreak of the coronavirus. This week EasyJet and IAG shares fell 6.8 and 14.5 per cent respectively and the MSCI ACWI Airlines index shows the sector is down around 51 per cent this year.

With many international borders currently closed, thousands of flights have been grounded and air crews put on furlough. The number of daily passenger flights is down around 60 per cent since the end of February and airlines are burning through cash reserves with aircraft sitting idle on the tarmac of the world's airports. The International Air Transport Association says its base case sees the slowdown air travel continuing well into next year and estimates 2021 passenger numbers will be down between 24 and 32 per cent compared to 2019.



Data Sourced from FE Analytics, and Bloomberg Finance LP