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Investment Services

Reeves Market Outlook

August 2020

1. Gold shoots to a nine year high on fears of economic hit

The price of Gold has continued to rise even higher as we reach the end of July and has risen over 4% in the last week alone, when denominated in US Dollar. This is the biggest weekly gain in over three months for the precious metal price. This comes as data analysed from the first two quarters of 2020 revealed that investors have stashed a record $40billion of cash into funds that are Gold backed.

Relevance/Impact

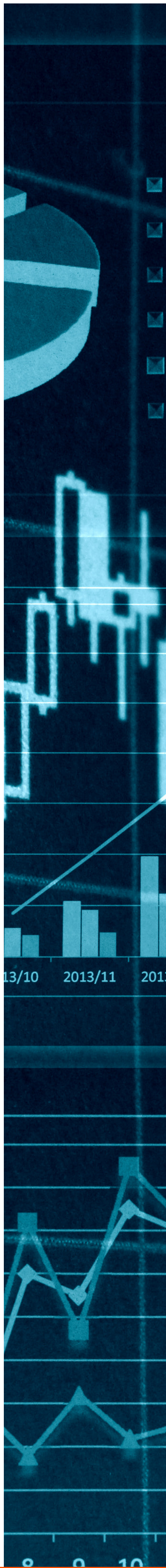
Gold has risen almost 19% so far in 2020 and has firmly asserted itself as one of the best performing asset classes of this year as investors have searched for safe investments to place their cash during the pandemic. Also paving the way for higher Gold prices is the continuing weakening of the dollar as it slides into 22-month low owing to the darkened U.S. economic outlook.

Commonly known as a ‘safe-haven’ during times of both political and financial uncertainty, Gold has a very low correlation with equities and major market indices and so is a very attractive portfolio diversification tool. It also has a positive price elasticity so as more people purchase Gold, the price automatically moves up, no matter what the outlook of the global economy may be.

Lower bond yields and therefore interest rates (many countries have negative interest rates) also mean that the opportunity cost to investors of holding Gold (relative to Cash or Bonds) is significantly reduced.
Chief Precious Metals Analysts at HSBC told the Financial Times that the health, financial and economic uncertainties generated by the Covid-19 pandemic and its aftermath are likely to continue to support gold’s rally well into 2021, but at a reduced level. The price may actually become choppier as investors assess the risks from the virus and trade tensions against the positive added stimulus from Central Banks.

Source:

Gold shoots above $1,800 for first time since 2011; https://www.ft.com/content/b5d9e57f-74f6-4445-88bb-ca6ddff20525



2. Coronavirus: COVID-19 vaccine is vital but may not be accessible for another 12 months

As lockdown restrictions are easing around the globe, people are starting to resume their day to day lives but Coronavirus still poses a deadly threat and there are currently no available vaccines proven to protect the body against Covid-19.

Medical researchers worldwide are working relentlessly to change this fact and find a cure to the virus which will allow us to safely return to normal. This is of significant importance to the majority of the world who have not had the virus and are therefore still vulnerable.

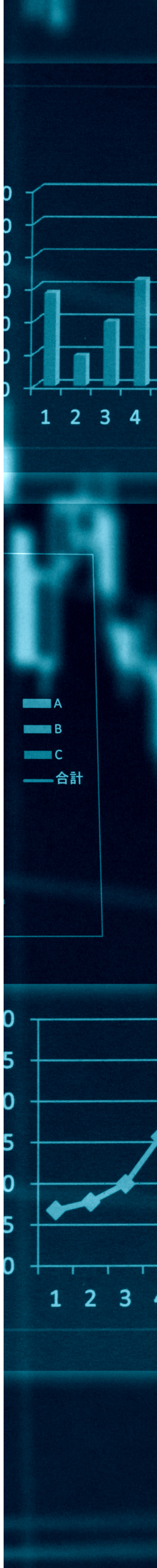
Relevance/Impact

Crucially, many economists are under the impression that a full economic recovery will only truly be underway when companies no longer see Covid-19 as posing a significant threat to their revenue and this may only be possible with the widespread distribution of a vaccine.

The UK government has placed an order of 100 million doses of a vaccine that appears to be able to safely trigger an immune response in individuals so that they cannot become sick with the virus. The challenge faced is that scientists are trying to bring a 10-year development cycle into 10 months.
Currently, 140 vaccines are in early development with over twenty currently being tested on humans in clinical trials. Even when a safe and reliable vaccine is found, a way of producing it on a huge scale must be developed. Most experts think a vaccine is likely to become widely available by mid-2021, about 12-18 months after the first case of Coronavirus emerged.

Source:

Coronavirus vaccine: UK government signs deals for 90 million doses; https://www.bbc.co.uk/news/health-53469269



3. Brexit: We Are Still Some Way Off a Deal but Almost out of Time

Following recent negotiations, both the UK and EU have stated that they are no closer to reaching a post-Brexit trade agreement and in reality, a deal appears 'unlikely'. EU negotiator Michel Barnier has said their position needed to be "better understood and respected" by the UK if an agreement is to be achieved in time. The UK has also been heavily criticised for providing no clear future plans to provide state support for businesses in need. However, the Prime Minster has formerly stated clearly that it will become easier for the UK government to provide support and backing to those firms struggling.

Johnson has also responded by saying that he does not believe it is appropriate for us to continue to obey EU laws when we are not in the EU but that he is more confident about the prospects of a deal. If we are to approve any deal before the transition period ends in December, we would need a preliminary agreement by October at the latest.

Relevance/Impact

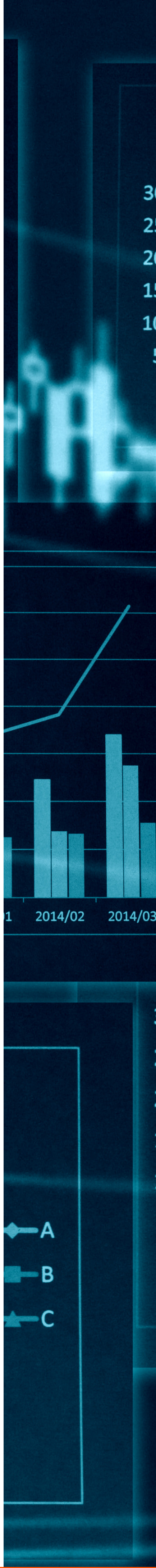
The UK has ruled out extending the December deadline to reach a deal and so, regardless of any outcome, there will be significant and inevitable changes in trade from the 1st January. Meanwhile low visibility has resulted in reduced interest from foreign investors and this has been cited as one reason our stock market(s) has lagged.

Cabinet office minister Michael Gove has suggested that regardless of whether a trade deal is reached all UK companies trading within the EU are likely to face increased costs and the current plans would create extra financial and regulatory burdens for business. These conditions could lead to global companies threatening to move their manufacturing plants over to Europe which would threaten the UK's recovery.
Although 2020 has so far seen the UK face unparalleled and exceptional challenges, as we near the end of the transition period, 2021 is set to present yet another unknown to the country and the equity markets.

Source:

Post-Brexit deal: What's happening in the UK-EU talks?; https://www.bbc.co.uk/news/uk-politics-53518641

Brussels to warn time is running out for Brexit deal; https://www.ft.com/content/272974a2-1d25-4a1a-aab4-b4bcfe2bbc3a



4. UK economic recovery: The economy has 'clawed back half of lost ground' but recovery could be longer than anticipated

The UK experienced the deepest and most abrupt downturn for over three hundred years due to Coronavirus and as a result the economy shrunk by 25 per cent. However, we can now see that a recovery has started, and the UK Economy has managed to claw back almost half the fall in output experienced during the lockdown.

The recovery has so far, followed the desired ‘V-shaped’ recovery path as the economy has bounced back and Bank of England’s Chief Economist has stated that we are on track for a quick revival and is hoping for a ‘swift and full bounce back in activity.’. A speedy bounce back to normal activity, lifestyles and incomes is what we have all been hoping for. Unfortunately, this level of recovery not guaranteed to continue as various economists fear that the path to full recovery could be much longer than most are anticipating.

Relevance/Impact

Coronavirus and the subsequent fall in economic activity have provided UK companies with a difficult backdrop with high market volatility likely to be seen for the rest of the year. We note that active managers are seeking those companies that they believe can thrive, not just survive, over the next few months.

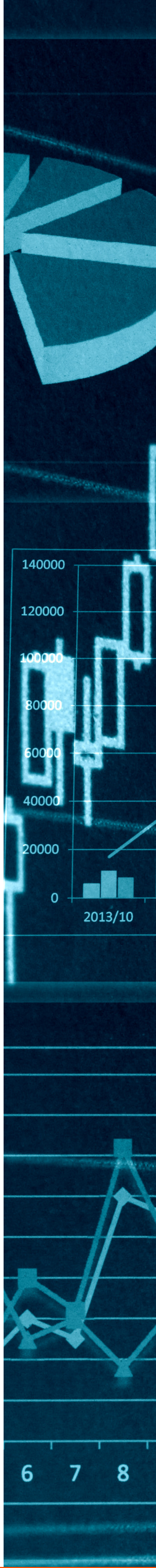
The outlook for the UK economy is closely intertwined with progress in combating the pandemic and although there is inevitably going to be short to medium volatility there is a firm belief that certain companies and sectors will end up as winners.

Additionally, global markets have been reflecting varying degrees of recovery with fluctuating levels of volatility. This highlights the importance of diversification as by holding a range of assets across the globe, the portfolio is exposed to varying degrees of recovery regardless of which market does best.

Source:

UK economy rebounds more slowly than expected; https://www.bbc.co.uk/news/business-53400721

UK economic recovery tracker: what the latest data on activity are signalling; https://www.ft.com/uk-econ-tracker



5. The Future Impact of November US Federal Elections on Markets

Within an already volatile economic environment, the U.S Presidential election is considered by many investors to be a major risk to the markets as we move towards November.

The principal threat to markets would be the re-escalation of trade tensions between the US and China which could come as the potential re-election strategy of President Donald Trump. However, most investors are of the opinion that for Trump to win there needs to be a rebound in the US economy which is less certain to occur this summer as once predicted.

A win by the Democratic nominee, Joe Biden, may likewise present risks to the markets. Among Biden's policy proposals are a partial reversal of the Tax Cuts rolled out by Trump in 2017. These tax cuts were a major advantage for many US corporations and played a significant role in helping to drive up the profitability of companies in the S&P 500 index.

Relevance/Impact

The election will act as a catalyst by influencing the economy, equity markets and key sectors such as Healthcare. The outcome of the vote will ultimately drive and dictate what stimulus is going to be used in the attempt to mitigate the economic damage caused by Coronavirus.

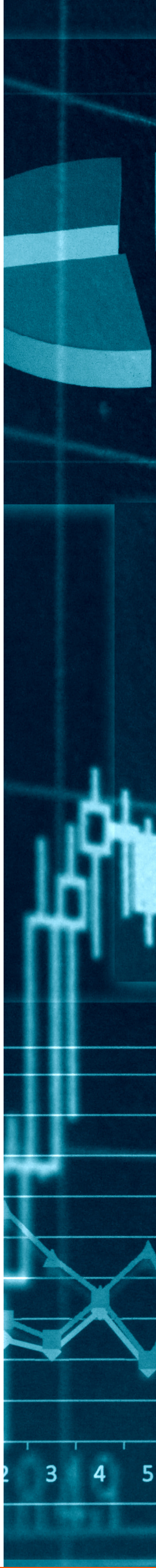
Historically, when analysing returns from 1952, stock markets have been shown to perform better under a Democratic leadership rather than a Republican leadership. Though leading economists state that this does not indicate a cause and effect relationship and historic returns should not be used as a guide for the future.
It should also be noted that at the same time as the election, the Northern Hemisphere will enter its 'cold and flu season'. This is predicted to cause concerns over a greater, second wave of the coronavirus which may add to the volatility and uncertainty experienced by the market.

The US elections are certainly an event to be followed closely and will only continue to increase in significance the closer we move to November.

Source:

Markets are right to be nervous about the US election; https://www.ft.com/content/af5ee2c0-d53c-4437-8b98-5e8341ffbcf5

How The Markets Will React To The 2020 Election; https://www.forbes.com/sites/simonmoore/2020/07/18/how-the-markets-will-react-to-the-2020-election/#44b9ff4b5ee1



6. China: Economic Recovery Continues for The World's Second Largest Economy

According to sometimes questionable local data, China has been experiencing the coveted V-shaped recovery and driven by strong Retail interest the Shanghai Composite index has climbed over 15% at the beginning of July to highs not seen since 2018. This apparent economic recovery is amid improving economic data in China and a noticeable slowdown in coronavirus cases. China has also recently announced that GDP rose from the previous year by 3.2% in quarter two.

Meanwhile increased geo-political tensions are escalating with China adopting a combative and aggressive stance towards various issues and countries including the US, UK, India and Australia. While the implications of these actions are challenging to predict, there may well be unintended and far reaching consequences if tensions escalate further.

A further issue for the Government to deal with that is less visible is the risk of flooding in the Yangtze valley with some 400m people potentially at risk should the heavy rains continue.

Relevance/Impact

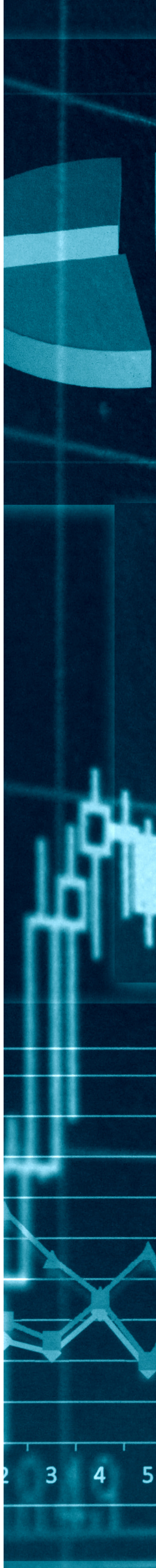
The impact of the Chinese Government's stimulus thus far as resulted in increased domestic output of goods and services. This is expected to have an impact on finished goods prices and may well result in a deflationary pulse that could be experienced by global economies.

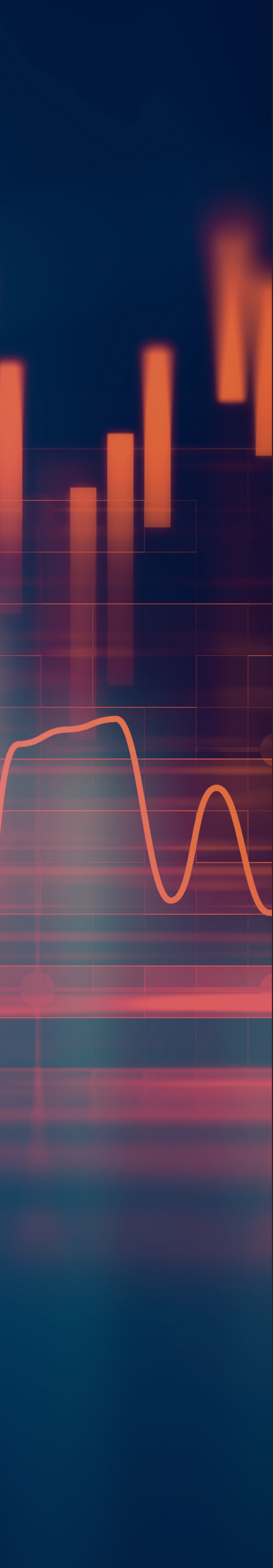
Source:

Chinese GDP grows 3.2% in second quarter; https://www.ft.com/content/4a0f9dca-b48c-453f-bfc1-2c6c8b55682a

China GDP: first major economy to show a recovery from coronavirus damage with 3.2 per cent growth in second quarter; https://www.scmp.com/economy/china-economy/article/3093371/china-gdp-economy-avoids-recession-second-quarter-growth-32

Coronavirus: Chinese economy bounces back into growth; https://www.bbc.co.uk/news/business-53399999





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Reeves Independent Limited: 30 High Street, Gosforth, Newcastle Upon Tyne, NE3 1LX
Tel: 0800 989 0029
Email: info@reevesifa.com