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FINANCIAL CONSULTANCY

MARKET COMMENTARY

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IN THE NEWS

This week we have seen movement in the three main issues facing the UK: coronavirus, the recession it caused and Brexit. Unfortunately, that movement has been further deterioration. In all three cases the government is holding an optimistic position that could be overrun by events. The chance of another national lockdown increased this week after the government's three-tier local lockdown strategy was challenged. With infections still rising a circuit breaker lockdown hasn't been ruled out.

The chancellor's hope of getting through this next phase without the huge government support seen in the early part of the outbreak also took a hit. With rising unemployment if another national lockdown coincides with the end of the furlough scheme, further action would seem likely. Rishi Sunak has been trying to emphasise the cost of another bailout, but the cost of not doing it could be far greater. Reality hasn't troubled the Brexit negotiations too often but they too took a hit this week – with the EU possibly calling the PM's bluff on his threat of no deal.

THE MARKETS LAST WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yrs	UK 10 Yrs	Brent Crude	Gold	Wheat	GBP USD
-2.48%	+1.06%	-0.89%	-2.01%	+0.80%	-0.05%	-0.11%	-0.55%	+0.77%	+4.34%	-0.76%

UK: UNEMPLOYMENT HITS 4.5% AS FURLOUGH SCHEME RUNS OUT

Unemployment in the UK is starting to accelerate six months after the coronavirus lockdown was introduced. Despite the collapse in GDP, unemployment has so far remained low as government support in the form of the furlough scheme has allowed employers to avoid redundancies. As the scheme starts to taper (government support dropped from 80 per cent of salary in July to 70 per cent in September and then 60 per cent in October) unemployment has started to increase as employers were asked to start contributing towards furlough costs. Unemployment in August increased to 4.5 per cent, up 0.4 per cent on the previous rolling three-month period.

The scheme is due to finish at the end of October when employers will have to decide whether to make non-working staff redundant. Office for National Statistics data show redundancies are growing at a faster rate than after the global financial crisis and the figure for total hours worked is still around 15 per cent lower than in February.

EUROPE: PERIPHERAL GOVERNMENT DEBT YIELDS PUSH EVEN LOWER

Italian government bonds hit a milestone few would have thought possible only 12 months ago. Last week the Italian government issued a three-year bond with zero coupon. As the issue sold for a premium, the bond carries a yield of -0.14 per cent. Issues of seven and 30-year debt were also sold at record lows as investors increase demand for all EU government bonds. In the secondary markets the yield on all Italian government bonds up to three years is negative while the yield on 10-year bonds is currently 0.68 per cent.

Other peripheral EU government debt is also trading at record low yields. Greek 10-year bonds are currently trading on a yield of 0.81 per cent, while Spanish and Portuguese 10-year bonds are trading on yields of 0.13 per cent. Investors appear happy to speculate that the European Central Bank will increase the size of the €1.35tn Pandemic Emergency Purchase Programme to buy more EU government debt and will step in if yields begin to rise.

EQUITIES: LISTED PUB GROUPS CUT JOBS AS OUTLOOK DETERIOTATES

The return of nationwide restrictions to limit the spread of coronavirus have added to the problems facing the UK's pubs and bars. Last week Marston's announced 2,150 jobs losses (a fifth of its workforce) as it revealed a 30 per cent drop in sales for the last 12 months. Mitchells & Butlers, owner of All Bar One, Harvester and O'Neill's, also started a consultation over jobs cuts last week. On Friday, JD Wetherspoons announced a loss for the first time in its history as annual sales have fallen by a third.

Leisure and hospitality stocks have been amongst the worst hit by shutdown and restrictions on movement and socialising and the latest restrictions make it hard to see an end to their problems. Wetherspoons shares have been some of the best performing in the sector, but they are down almost 45 per cent over the last 12 months. Heavily indebted Marton's and Mitchells & Butlers have fared worse with shares down 63 per cent and 68 per cent respectively over the last year.

Market Data Sourced from FE Analytics, and Bloomberg Finance LP