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25 August, 2020

Re-defining the market phrase 'climbing a Wall of Worry'

◆ The S&P500 closed at yet another all-time high last night, and markets elsewhere have risen

◆ Talk in recent hours regarding prospects for a vaccine, and US-China trade talks has been positive

◆ German second quarter growth came in at -9.7% annualized, slightly better than the earlier estimate

◆ All eyes this week will be on the detail of what Fed Chair Powell says at Jackson Hole

◆ The FAB AAC Committee is slightly underweight in global equities, and overweight in IG bonds and gold

The S&P 500 index closed at yet another all-time closing high (at 3,431.28) yesterday, up 1.0% on the day. Although technology stocks as a group advanced, the drivers were also previous laggards hit hard by Covid-19, sectors such as airlines, leisure, industrials, and banks. Indeed a degree of sector rotation does appear to be taking place, and leading to an all-important broadening of 'breadth' (i.e. the proportion of stocks advancing) that would signify a healthier stock market than one simply dragged upwards by tech.

Factors contributing to a continued bullish tone were helpful comments coming out of the US-China trade talks, and growing hopes that one of the front-runners in the coronavirus vaccine stakes will soon come good, given the 30+ trials currently in progress, various of which sound very hopeful. Moderna was in the frame last night in the US, and also important was the fact that the US is allowing the use of blood plasma from recovered patients to be used in the treatment of seriously ill and other patients. This method of boosting the body's defences against attack has been around for about a hundred years, and sounds safe. While these discussion points are net-bullish in

Chart: S&P 500 Index



isolation we should also consider evidence that a person in Hong Kong has now had two different strains of the virus. Covid-19 was always expected to mutate. In investment terms we are erring on the side of the view that this virus – in one form or another – will be with us for a long time. Accordingly, many of the coronavirus 'winners' should continue to do so, subject to extreme valuations somehow being avoided.

Linked to this is the view that we increasingly hear that the highly unusual stock market recovery that we have seen - by far the quickest in history - will reverse as soon as a cure for the virus is found. Unless the QE recently applied is summarily reversed - which is highly unlikely - the money printed to save the world from a new depression will remain supportively in the economic system and in the markets

We think investors on the whole are beginning to expect just a bit too much from the Fed (and the other central banks), however. Last week there was a hint of frustration that the previous Fed minutes were not laced with promises regarding the use of rate 'capping' and yield curve control. This could be a

problem, and clearly insofar that Mr. Powell's policy statement this week will have to be almost beyond perfect in its content and delivery. The Fed follows all the indicators that we do, and many, many, more besides. They have seen the increase in inflation expectations, and know that if the 'velocity' of money (discussed here a few days ago) increases via a sharp improvement in business confidence (this is not impossible), then an inflationary bonfire could be set alight.

In summary, Fed Chairman Powell's policy speech this Thursday at Jackson Hole will arguably have more attention and receive more drill-down than any statement by a Federal Reserve Chair for many years. On the basis that stock markets still move in cycles and will do so in the future, we are mindful that historically by far the most profitable phase of any equity bull market is usually the final part.

Investment Strategy Update

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