

Monthly Commentary 3rd June 2020

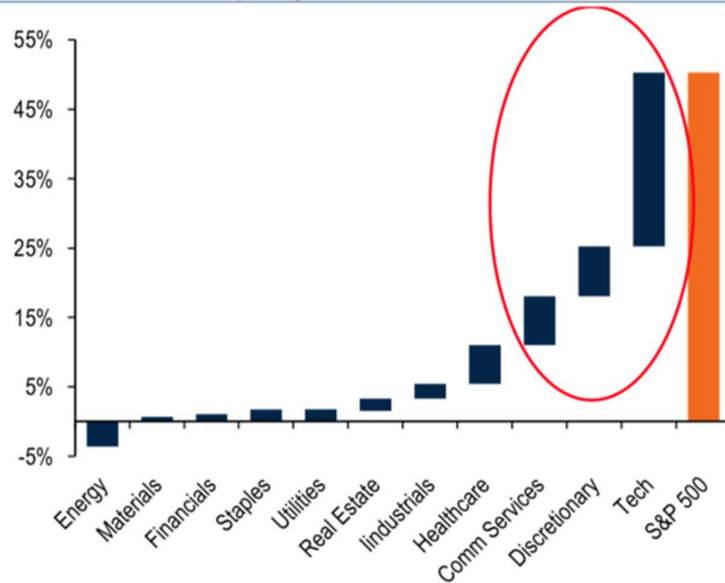
July was mostly a good month for equities, a very good month for bonds and an exceptional month for precious metals. On the flip side it was a bad month for the US dollar, which fell more than 4% on a trade-weighted basis. This aided Emerging Market stocks that gained more than 7%, and also very much helped large-cap US stocks with exposure to foreign markets. They were up more than 5%. The UK was the worst performing major market, with the FTSE 100 falling more than 4%. A combination of complete ineptitude in the UK government's handling of the virus, coupled with uncertainty on trade talks with the EU made the UK market by far the weakest so far this year, losing more than a fifth of its value. Gold and silver were up by double digits as rising prices are finally giving gold bugs something to cheer.

A narrow market

With the US markets flirting with all-time highs, the index numbers are not always what they seem. Info-tech companies are responsible for almost 80% of the market's 5-yr gains! This means that the majority of sectors are still in the doldrums, and this might not bode well for the broader economy.

Tech & e-commerce = 78% of gains

S&P 500 return attribution, past 5 years



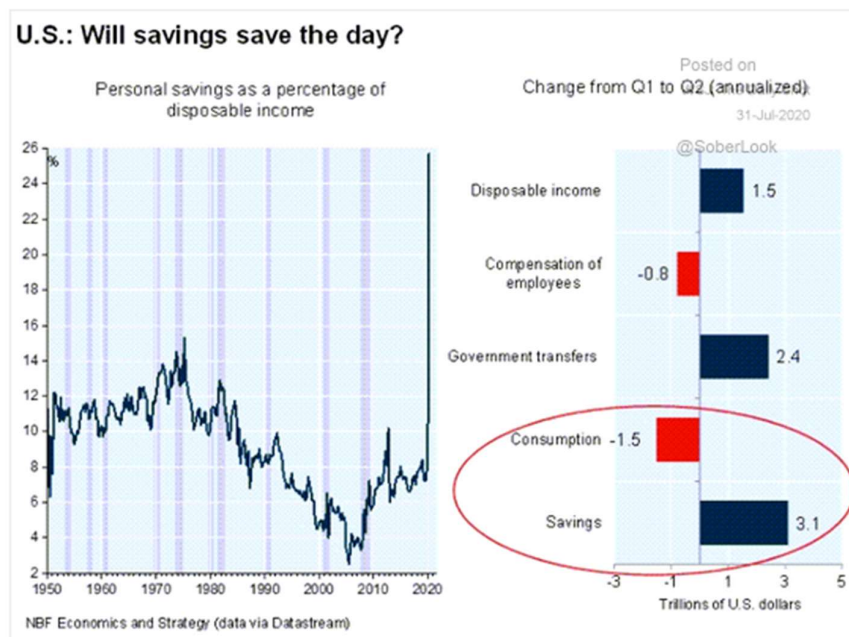
Source: BofA Research Investment Committee, Bloomberg



In particular, smaller companies have been left in the dust. Even worse, smaller businesses that are not listed but represent the bulk of US GDP and employment are really struggling, with many fighting for their existence.

US savings rate

One potentially bright spot in otherwise bad economic data is that the personal savings of US households have grown by an unprecedented 3.1 trillion dollars in the three months to the end of June. If these savings find their way to consumption, it would go a long way in growing the US (and thus the global) economy.



Source: [Economics and Strategy Group, National Bank of Canada](#)

The US and China

The deteriorating relations between China and the US remind us that China has now grown so much that it is considered an economic powerhouse equal to the US. The graphic on the next page confirms that as of last year, Chinese retail sales have overtaken those of the US. Considering the consumer is the backbone of any economy, this might signal the passing of the baton. It is also quite remarkable that e-commerce sales are much larger in China than the US.



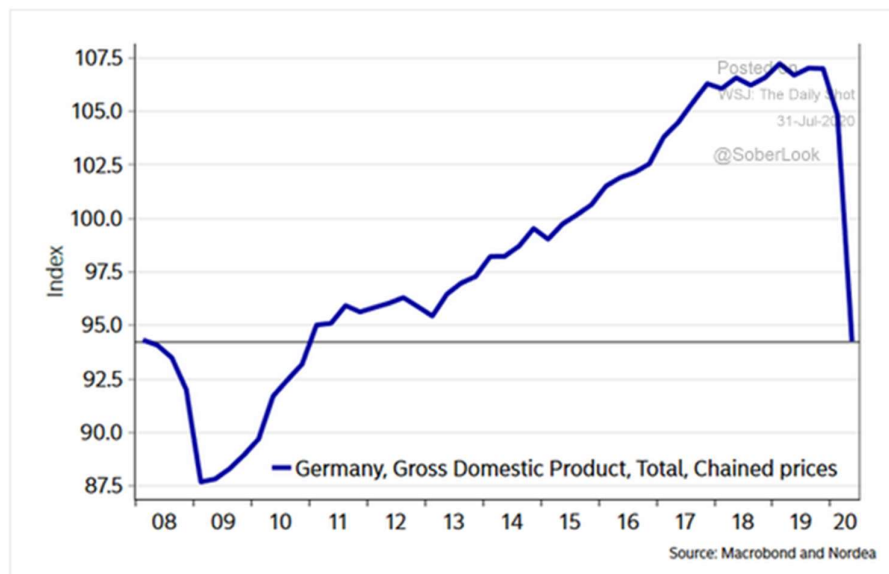
Retail sales in China have overtaken U.S. sales, propelled by e-commerce.



Sources: U.S. Census Bureau; China National Bureau of Statistics

The German economy

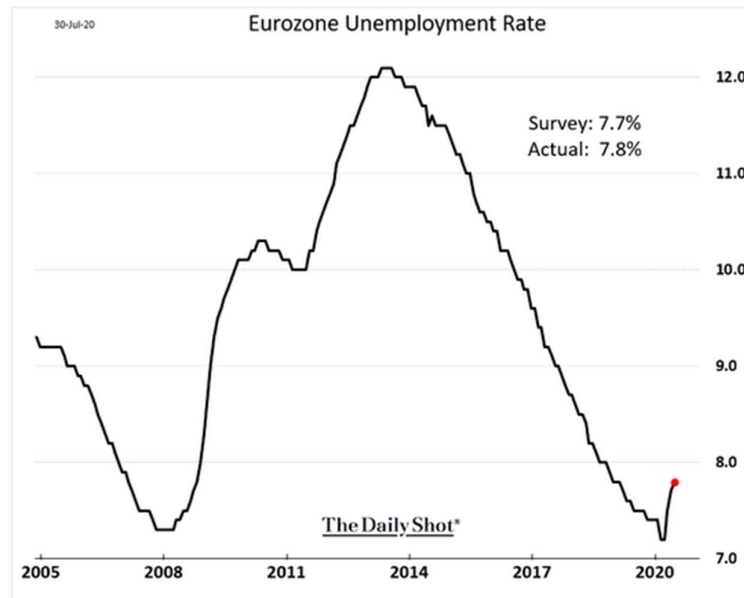
Being the powerhouse of the European economy, Germany's GDP trajectory is closely followed. As expected, Covid-19 has had a devastating effect on Germany.



The graph above shows that almost 10 years worth of growth have been wiped out!



Not all is bad however as unemployment in the Eurozone is still way below what it was at the height of the debt crisis in 2014.



Still, it would be too early to assess the real effects on employment from the current crisis until at least the second half of 2021. Sadly, millions of pre-Covid jobs will not come back. The magnitude of these losses is what is unknown.

Conspiracy theories and Covid-19

Last month, we mentioned the polarization of American politics and how one's political beliefs are reflected in how they conform to wearing masks, social distancing and staying at home. With conspiracy theories thriving in the age of social media/Covid-19 it is appropriate for us to take a stance in support of science. Jim Al-Khalili, a British theoretical physicist, could not have put the difference between conspiracists and scientists any better than in an article he published in the Guardian last April. Below is an excerpt:

“Conspiracists will argue that, like scientists, they too are sceptics who question everything and value the importance of evidence. But in science, while we can be confident that our theories and descriptions of the world are correct, we can never be completely certain. After all, if an observation or new experimental result comes along and conflicts with an existing theory, we have to abandon our old presuppositions. In a very real sense, conspiracy theorists are the polar opposite of scientists; they assimilate evidence that contradicts their core beliefs, and interpret this evidence in a way that confirms, rather than repudiates, these beliefs”.



Ignorance is indeed dangerous...

Disclaimer

The information in this article should neither be regarded as an offer nor a solicitation to buy, sell or otherwise deal with any investment referred to herein. As a regular rule, the value of any investment may rise or fall. Past performance is not an indicative of future results. Do not take unnecessary risk and always request advice from an investment professional before undertaking any investment.