



Rathbones
Look forward

Review of the Week

27 July 2020

Foxes and storks

Investors have piled into gold as the reality of US-China diplomacy starts to resemble Aesop's fabled fox and stork. Chief investment officer Julian Chillingworth also ponders whether US tech shares are priced for perfection as he looks ahead to some big earnings results this week.

A fox invited a stork over for dinner and for its own amusement, served soup in a wide bowl which simply fell out of the stork's beak, leaving the bird hungry. The stork responded by inviting the fox over and serving dinner out of a long tall glass, perfect for its beak, but impossible for the fox to eat. The fox grew angry, whereupon the stork told him that he should not play tricks unless he could stand the same treatment himself.

I wonder if Aesop ever made it onto the US President's reading list. Last week, the US shut China's Houston consulate alleging the country was stealing America's intellectual property. Unsurprisingly, China quickly retaliated by shutting the US's Chengdu consulate, accusing the Americans of meddling in its affairs. Call it foxes and storks or call it tit for tat, either way, last week tensions between the superpowers heightened further.

These spats are nothing new, but investors seem worried about the escalation and have run for shelter in gold. As the week ended, the precious metal hit an all-time high near \$1,900 per troy ounce and the dollar weakened further. Secretary of State Mike Pompeo ratcheted the rhetoric up further, just stopping short of advocating regime change in China. With the US election in the President's sights, this tough on China messaging may well be a campaign tactic. But how high is the price of victory?

America's mismanagement of COVID-19 has not done the incumbent any favours in the polls and is adding to investors' fears. With the election less than 100 days away, an Associated Press-NORC poll showed just 32% of Americans approve of Trump's handling of the pandemic, and with deaths sadly at over 1,000 a day, this approval rating is unlikely to increase soon. Even the President seems to have noticed his comms haven't been bang-on, changing his tune by tweeting a mask-clad photo of himself and describing the gesture as 'patriotic'.

Priced for perfection?

The second quarter reporting season is in full swing, with US tech giants Apple, Alphabet and Amazon all reporting on Thursday. Technology stocks have strongly outperformed since March and investors are showing signs of reappraising their holdings. Last week investors trimmed positions in Microsoft following the release of its results, which beat estimates for both sales and profits, but disappointed in the area of Azure and Office products. Intel also produced some reasonable numbers, but said that various production issues would impact its third quarter numbers, sending the stock down sharply in late trading on Friday.

As we go through the reporting season, there will be debate around whether those outperforming tech stocks are priced for perfection, and any slight disappointment will lead to profit-taking. The key will not necessarily be the figures, but outlook statements.

Markets are clearly very sensitive to the pace of both economic normalisation and coronavirus resurgence, which are inextricably linked. The US is running at around 60-70k new cases per day, though there are some signs that daily infection rates in some states like Texas are starting to trend down, helped by mandatory masks and bar closures.

The US stockmarket wasn't helped by last week's US jobless claims, which unexpectedly rose for the first time since a downward trend began in March, but losses were fairly limited given the plethora of bad news. This is a crucial week for the US economy, with existing furlough arrangements scheduled to end on Friday, risking a 'fiscal cliff' that could clip the wings of the fledgling recovery. Treasury Secretary Steve Mnuchin is floating piecemeal legislation, which Senate Majority Leader Mitch McConnell is expected to formally propose for a vote today. This would include an extension of anti-eviction measures, another cheque of up to \$1200 for US households and extension of unemployment benefits, capped at 70% of previous wages. Passage by the Senate would be a move in the right direction, but the final hurdle in the Democrat-controlled House of Representatives remains a big one.

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