A different summer pause

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"August brings into sharp focus and a furious boil everything I've been listening to in the late spring and summer" - Henry Rollins

Financial markets are always a three-dimensional jigsaw, with new pieces being added and deleted at whim every business day. But the signals from the last month have been especially difficult to discern. In contrast to the bounce back second quarter, July was a negative month for pan-European markets with the U.K. continuing to lag. However, it was a mixed-up month from other perspectives, with sector leadership across the pan-European markets being shared by both the defensive utilities and more typically growth-focused materials sectors. Meanwhile globally, the high profile congressional appearances of a number of U.S. technology behemoths to answer a range of questions centred on their burgeoning power and influence... was followed by a series of generally well-received profit disclosures that highlighted their burgeoning power and influence. Strange times indeed.

The biggest shift in financial markets during July however was in the foreign exchange markets. July saw a notable upward move by a number of major global currencies - including the Euro, the British Pound, the Japanese Yen and the Chinese Yuan - versus the American Dollar. Partially this was inspired by some better news at-the-margin from these geographies. Most notable among these the inaugural agreement between European Union member states to forge a region-wide fiscal response to the COVID-19 pandemic crisis, rather than just rely on national initiatives or monetary policy instruments via the European Central Bank. This was supplemented by a broad continuation of suppressed COVID-19 cases in East Asia and across Europe, although by the end of July such views were being progressively questioned. Nevertheless, both regions are benefiting from enhanced pandemic virus control compared to the United States, a reality which also manifested itself in firmer near-term economic indicators - such as purchasing manager indices - which have also provided some continuing economic recovery hopes, after the statistical data nadir of the lockdown impacted second quarter. There is little doubt that confidence levels, even in East Asia and across Europe, remain subject to great uncertainty.

For policymakers, August 2020 is going to be a very different summer pause. In the United States, with three months to go until the presidential election, this was always going to be the case. However, across both Asia and Europe the challenge of balancing both health and economic confidence levels will be a major test. Policymaking is usually a trade-off problem but forging ahead with a suitable 'back to work and school' plan from September onwards is going to impinge on any limited staycation time policymakers have.

Much has been made in recent days of the enhanced levels of volatility normally seen in the holiday-tinged August financial markets. Judging by the firmness in both the gold price - to almost new all-time highs - and the continuing compression - to all-time lows - in benchmark U.S. Treasury yields, some traditional risk indication measures are already very cautiously positioned. With the pandemic impacted nature of the first seven months of this year, this is to be expected. However, in life or the financial markets,

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a range of future scenarios always exists. Certainly, the fade in the U.S. Dollar over recent weeks has typically been followed over recent generations by great appreciation of global risk assets, a trend which the relatively more open economies of Asia and Europe should benefit from. The missing ingredient remains the confidence levels of individuals, entrepreneurs and industrialists going into the 'back to work / school' period in a month or so's time. Something to ponder in a very different summer break. Personally speaking, I still see the glass as being half-full rather than being half-empty.

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