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# Monthly Market Update



## October 2020

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“Many positive economic indicators have led to a broad recovery particularly in the US & China, albeit seems a little uneven across the rest of the world”



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## September Market Commentary

The post Covid-19 economic recovery appears a little uneven across the world. Recent US economic data has been very positive, whereas activity in the UK, where Brexit is looming, is not as encouraging. In addition, the risk of a second Covid-19 wave and consequent lockdowns is growing. Given the escalating risks, market volatility may pick up in the coming months. However, there are also many positive indicators that are picking up, such as international trade increasing after steep drops in May and June. This has led to a broad economic recovery in many places, but has benefited China in particular.

### United Kingdom

FTSE All Share: -1.69%

The early stages of economic recovery in the UK were weaker than in the Euro area as the trajectory of new virus cases continued to be higher for longer. The UK economy grew by 6.6% in July compared with June, but contracted by 7.6% in the three months to the end of July and remained nearly 12% below pre-crisis levels.

Headline inflation in the UK rose by 0.2% p.a. in August, but as a consequence of a temporary VAT cut in the hospitality sector, expectations over the short-term are for it to be close to zero.

However, with the risk of tariffs following Brexit and continuing monetary and fiscal stimulus, economists foresee inflation rising toward the Bank of England's 2% target within the next two years.

The Bank of England maintained its bank rate at 0.1% and left other monetary policy unchanged.

## **United States**

S&P 500: -0.40%

It appears that GDP in the US may not return to pre-Covid levels until the end of 2021.

However, the short-term picture has improved.

The Government's revised estimate of Q2 GDP, at minus 31.7%, confirmed an economy-wide collapse in activity, but was actually better than expected and indeed, improved economic performance is expected over the short-term. Given the US's less-stringent lockdowns economists expect full-year 2020 GDP of -4% and a slower pace of recovery in 2021 of 4%.

Compared with a year earlier, inflation rose by 1.3% and economic commentators see it remaining below 2% until the end of 2021.

The unemployment rate in the US fell for a fourth month in a row during August, to 8.4%.

In September the US Federal Reserve left its key interest rate unchanged at 0%–0.25%.

Policymakers also broadly expect the rate to stay at this level until the end of 2023. It was the US central bank's first meeting since it announced last month that it would allow inflation to modestly exceed its 2% target to try to achieve a 2% average over time.

## **Europe**

FTSE Developed Europe ex UK: 0.65%

An economic contraction of around 10% for the Euro area is expected during 2020.

However, GDP readings have been higher than expected at the start of the pandemic and fiscal policy, including the €750 billion Next Generation EU Recovery Fund, should be

supportive. Albeit a stronger Euro since May, including a nearly 10% rise against the US Dollar, is negative for exports.

Covid-19 cases have also risen, especially in Spain and France, so any economic recovery for the rest of the year is expected to be gradual.

Headline inflation was -0.2% in the Euro area on an annual basis in August, which was the first negative reading in four years.

The Euro's recent appreciation against other major currencies should exert further disinflationary pressure as less expensive imports and more expensive exports weigh on GDP and the core rate of inflation is not expected to rise to meet the European Central Bank's 2% target over the next 12 months.

The European Central Bank left its main deposit rate unchanged at -0.5% in September and said it would keep rates at current negative levels, or lower them further, until it sees the inflation outlook "robustly converge to a level sufficiently close to, but below, 2%."

## **China**

CSI 300: -0.65%

Economic data continues to paint a relatively upbeat picture for China.

Retail sales rose by 0.5% in August compared with a year earlier – the first such gain this year.

Exports remain resilient, rising 9.5% compared with August 2019 and full-year growth for China is forecast to be within the 1% to 3% range.

## **Japan**

MSCI Japan: 4.58%

The resignation of Prime Minister Abe is expected to have little short-term effect on the economy in Japan.

A moderate economic rebound of around 5% in both the third and fourth quarters is expected. However, rising Covid-19 infection numbers present a risk to spending on services.

## Emerging Markets

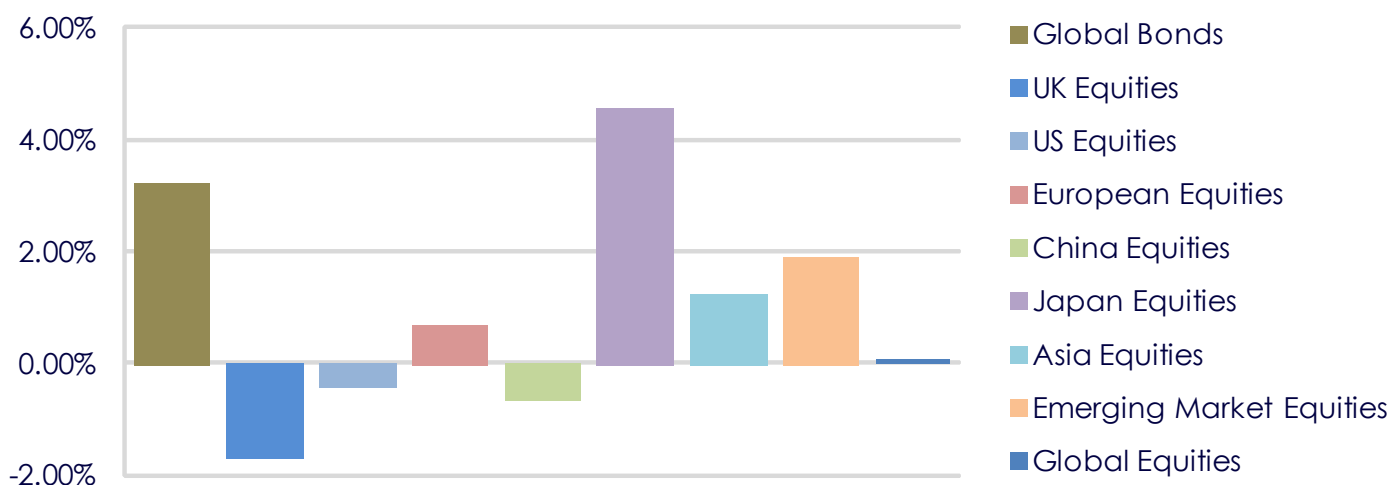
MSCI Emerging Markets: 1.91%

The International Monetary Fund (IMF) lowered its forecast for growth in emerging markets for both 2020 and 2021 owing to a rapid intensification of Covid-19 infection rates in many countries.

The IMF foresees emerging markets contracting by 3.0% before rebounding with positive

growth of 5.9% in 2021. The IMF outlook for Latin America is particularly pessimistic with an expected contraction of 9.4% for all of 2020, before rebounding to 3.7% in 2021.

## Discrete Monthly Performance as at 30/09/2020



**All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.**

## Cumulative Performance and Annualised Volatility as at 30/09/2020

	1 Year %	3 Years %	5 Years %	Volatility % <sup>2</sup>
Global Bonds	1.26	17.06	42.03	9.55
UK Equities	-16.59	-9.33	18.57	12.43
US Equities	9.13	44.34	120.28	12.97
European Equities	0.03	7.05	56.31	12.07
Japan Equities	1.91	16.53	68.32	12.18
Asia Equities	1.07	13.93	83.82	14.30
China Equities	22.62	29.15	74.47	19.03
Emerging Market Equities	5.37	11.49	80.02	15.04
Global Equities	5.24	29.78	92.81	12.07

Data source FE Analytics 30/09/2020. Indices used: Global Bonds: Bloomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.

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