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Monthly Market Update

November 2020

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"Central bank Q.E. has slowed, but the commitment to prolonged support remains, with ample capacity available if markets show any signs of instability"

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October Market Commentary

The re-opening of economies across the world has progressed with variable degrees of success. Leading indices continue to suggest that global trade has swung back to an upward trajectory after steep drops in May and June. China's progress has been outstanding with its export sector boosted by strong demand for 'lockdown' products such as PPE and pharmaceuticals. In addition, the global bond market continues to be supported by extensive global central bank policy support.

The biggest current risk to markets remains a broad second wave shutdown. This would disrupt already fragile recoveries and test the capacity and effectiveness of the monetary and fiscal policy stimulus. However, although the pace of central bank quantitative easing has slowed meaningfully, the commitment to a prolonged period of looser monetary policy remains firmly established and there is ample capacity remaining through additional support facilities if markets were to show signs of instability.

United Kingdom

FTSE All Share: -3.82%

Renewed uncertainty about a Brexit trade deal between the UK and

EU is weighing on sentiment and virus suppression measures will probably limit Q4 GDP growth. UK GDP fell by 19.8% in Q2. This is the largest quarterly contraction since records began and experts forecast UK GDP to contract by around 11% for the full year.

Headline inflation in the UK rose by 0.2% in August from a year earlier, compared with a 1.0% rise in July. However, economists project inflation to rise toward the Bank of England's (BOE) 2% target within the next two years and unemployment to peak at 8% during 2021.

The BOE Base Rate remains at 0.1%, with other policy unchanged and it noted that the probability of introducing negative interest rates in the event of a sustained economic downturn, had increased.

Key areas covering state aid rules, fisheries and 'level playing field' provisions remain the contentious stumbling blocks for the Brexit trade deal negotiations, with a potential no-deal outcome leaving UK/EU trade governed by World Trade Organisation rules.

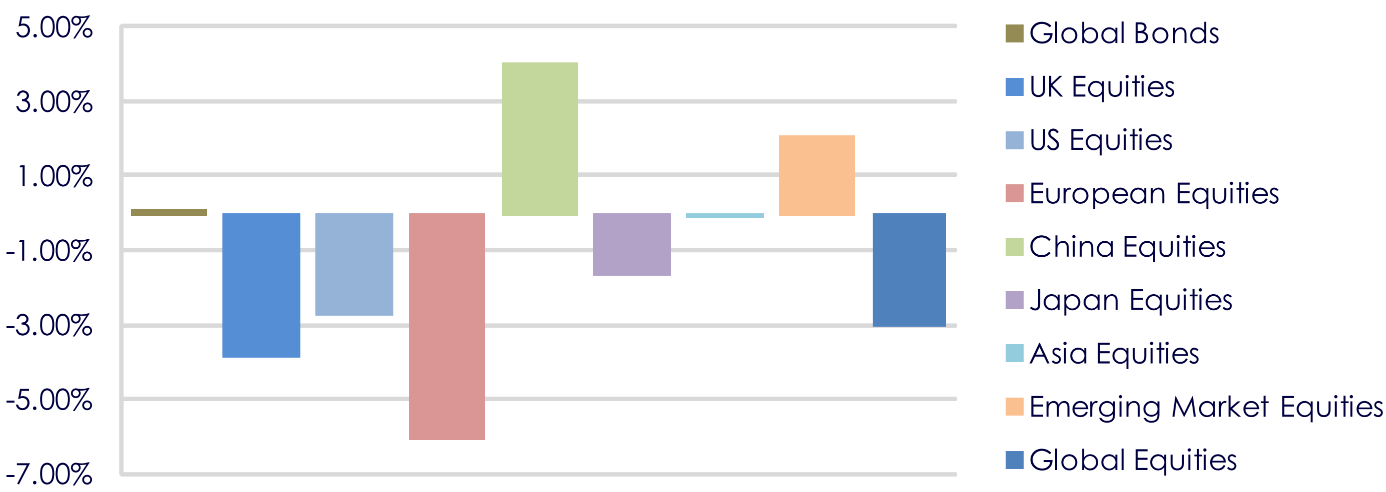
United States

S&P 500: -2.71%

US GDP contracted during Q2 by 31.4%. Economists expect Q3 GDP to show a recovery is well under way, with annualised growth of 22% for Q3 and 7% for Q4, forecast. However, this outlook assumes a Federal covid related support package of circa $1 trillion. A full year GDP contraction of around 4% in 2020 is projected to be followed by positive growth of around 4% in 2021.

Inflation rose by 0.2% and unemployment fell to 7.9% during September, but economists expect the pace of recovery to slow over the medium term. The US Federal Reserve (Fed) left interest rates unchanged at 0%–0.25%.

Discrete Monthly Performance as at 31/10/2020



Europe

FTSE Developed Europe ex UK: -6.06%

Rising cases of covid-19 in the Euro area have led to tactical, localised restrictions. As a result, only modest overall Q4 growth is expected, with contraction likely in face-to-face sectors such as leisure, hospitality and tourism.

Germany and Italy are expected to fare better than Spain and France, where the virus transmission has been higher of late and where the services sectors make a bigger economic contribution. A full year 2020 GDP contraction of -8% to -10% is expected.

Inflation fell in the Euro area during September to - 0.3% and unemployment rose to 8.1% in August, the fifth consecutive monthly rise.

The European Central Bank (ECB) left its key interest rate unchanged at -0.5%. Economists expect the ECB to expand its Pandemic Emergency Purchase Programme by around €500 billion by the end of the year.

China

CSI 300: 4.05%

The Chinese economy is on course to have fully recovered from the covid-19 pandemic by year end. Given China's better than expected recovery, the People's Bank of China currently has little reason to add further economic stimulus.

Japan

MSCI Japan: -1.61%

In Japan, exports to Asian trading partners have helped offset weakness in trade with the US and Europe, but economists forecast 2020 GDP to contract by 3% to 5%. Consumer prices fell by 0.1% and markets expect inflation to continue to ease for the rest of the year amid a second wave of coronavirus. The Bank of Japan (BOJ) left its key interest rate target at -0.1% and economists believe the BOJ won't cut interest rates in 2020.

Emerging Markets

MSCI Emerging Markets: 2.04%

Within emerging markets, emerging Asia is expected to fare best, with a 2020 contraction of around 1.0% and Latin America to be hardest hit with a contraction of around 9.0%. Significantly higher inflation is not forecast for the foreseeable future and unemployment rates are still far higher than before covid-19.

Global Bonds

Bloomberg Barclays Global Agg: 0.08%

In developed countries government bond markets (except Germany) long-term interest rates increased slightly during Q3. US, European and UK central banks reduced direct support for their bond markets by purchasing fewer bonds in the open market, but nonetheless, they remained accommodative.

All major sectors of the corporate bond market generated positive returns over the quarter. Lighter issuance over Q3, coupled with a steady demand fuelled the gains. However, credit fundamentals remained under pressure as countries, corporations and consumers continued to be negatively impacted by the effects of covid-19 pandemic.

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 31/10/2020

	1 Year %	3 Years %	5 Years %	Volatility %2
Global Bonds	5.72	16.40	44.62	9.49
UK Equities	-18.64	-14.39	8.93	12.41
US Equities	9.17	35.87	101.59	12.90
European Equities	-4.55	-0.85	39.78	12.29
Japan Equities	0.41	8.48	53.37	11.80
Asia Equities	2.18	8.69	74.18	14.16
China Equities	29.56	27.05	66.67	18.74
Emerging Market Equities	8.34	8.79	74.82	14.93
Global Equities	4.45	22.19	76.54	12.03

Data source FE Analytics 31/10/2020. Indices used: Global Bonds: Boomberg 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.