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Monthly Market Review
To 30 September 2020

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1. Equities

After rising in August, most of the world's major stock indices dipped in September. The FTSE World Index fell by 2.7%. Notably, US stocks reversed recent gains, with the S&P 500 declining by 3.8%. An uptick in coronavirus cases and doubts about the near-term availability of a vaccine affected markets. Concerns that further fiscal stimulus would not arrive until after the US election also contributed to the general 'risk-off' mood. Such bearish sentiment boosted the US dollar, which had a positive month. This had a negative effect on gold, which fell in tandem with global equities.

At its latest policy meeting, the US Federal Reserve (Fed) kept the main US interest rate unchanged. The Fed also reiterated its commitment to maintain near-zero rates until it sees a consistent rise in inflation. US jobless claims remained consistently below the one million mark over September. However, a change in the calculation method for seasonal adjustments also influenced the numbers. The official unemployment rate fell below 10% to 8.4% in August, due to some firms ramping up hiring.

European stocks declined in line with global markets. Rising daily coronavirus cases showed that a second wave may have hit the continent, sparking fears of further lockdowns. Meanwhile, the European Central Bank (ECB) kept rates unchanged and maintained that existing stimulus measures were sufficient. UK stocks also fell amid a dramatic rise in cases and continued Brexit uncertainty. Chancellor Rishi Sunak unveiled the new Job Support Scheme to replace the expiring furlough scheme. This will come into effect in November.

Emerging-market equities fell broadly, although a few Asian markets managed to post gains. Rising coronavirus cases, coupled with political uncertainty stemming from the upcoming US election, weighed on sentiment. In particular, Chinese markets dropped due to resurgent US-China tensions and Covid-19 worries. Japanese equities continued to edge higher, with new Prime Minister Yoshihide Suga officially taking over from Shinzo Abe. Investors were hopeful that the new prime minister will continue the economic policies of his predecessor.

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2. Bonds and Economics

Government bond yields fell slightly as developed central banks held rates in a month of mixed economic data.

The Fed said it anticipates no rate hikes until the end of 2023. At its most recent monetary policy meeting, the Bank of Japan held steady, noting an improving economic outlook. The ECB flagged that a strengthening euro could impact inflation. The Bank of England's minutes suggested that there are contingency plans for negative rates if conditions warrant it. The UK's national debt rose above £2 trillion in August, a 12-month increase of almost £250 billion.

The British economy grew by 6.6% in July but remained lower than pre-crisis levels. However, GDP fell 7.6% between May and July, but data showed that consumer spending rose in August. Unemployment in the three months to July rose to 4.1%, with 156,000 redundancies. The Institute for Employment Studies expects almost half a million job losses in the third quarter. The eurozone saw deflation in August, with consumer prices falling by 0.2%. Business activity also fell in September. France announced a €100 billion stimulus package, which focuses on tax cuts, subsidised wages and funding for green projects. Elsewhere, US Democrats have proposed a US$2.4 trillion stimulus package.

Globally, government bond prices rose over the month, pushing yields lower. This was most pronounced in Europe – French 10-year government bond yields fell from -0.10% to -0.24%. In the US, the 10-year bond yield moved slightly lower, from 0.71% to 0.69%. Corporate bond prices fell as credit spreads widened, with investment grade outperforming high yield.

3. Real Estate

The total return for UK commercial real estate was 0.2% during August (the latest data available), according to the MSCI UK monthly index. As anticipated, consumer-facing sectors – such as retail, leisure and hotels – continued to face challenging trading conditions. The lower real estate returns reflect these difficulties.

Elsewhere, the supermarket and industrial sectors continued to show relative resilience during this period of uncertainty. There is strong and focused demand in the market for the preferred sectors. Supermarkets, industrials, residential and the secure income markets fit the bill in this regard. Demand is helping to support prices in these sectors.

Our forecasts remain largely unchanged. We expect values to contract sharply this year, with further small declines in 2021. The precise timing of the Covid-19 effects on valuations is difficult to judge. Evidence so far suggests a holding pattern for many assets. This may mean more of the damage to values is pushed into 2021. We still expect a rebound in 2022 and more positive returns thereafter.

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4. IMPORTANT INFORMATION

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