# INVESTOR INSIGHT

**Autumn 2020**

A look at the markets by **RSMR**

## Welcome

Welcome to the latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

We hope you find this useful.

**Ken Rayner**
**Investment Director**
**RSMR**

**in association with:**

GRAYSIDE FINANCIAL SERVICES

## The global economy: What's going on?

### Pandemic challenges accelerate economic change

**Hopes of a V-shaped economic recovery – a sharp bounce back - which were raised when shops, bars and restaurants reopened after the lockdown, have been dampened as spending incentives, such as the chancellor's 'Eat- Out-to-Help-Out' scheme, have reduced and Covid-19 cases are rising sharply again.**

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The last quarter's economic performance has been varied with a large divide between stock market winners and losers. Most companies have little to celebrate as stock market gains have been made mostly by tech giants and others able to meet changing consumer demands.

Economic recoveries attract various single-letter descriptors, but the current diverse business performance means that K gets closest with sharp decline followed by recoveries in technology and healthcare but little improvement in energy, travel and leisure.

This has created greater market volatility with 2-3% up-and-down market shifts in September.

Gold has benefited from the uncertainty and oil prices have fallen but behavioural adaptations, such as home working, videoconferences and online shopping, herald significant long-term changes as a new era emerges.

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## The asset classes – a quick update

### EQUITIES

Covid-19 caught investors off guard, particularly when global equities bounced back.

The US saw its fastest decline in prices and confidence in March but has since benefited from a rapid rebound into a rising, or bull, market.

The markets' fall was partly explained by declining corporate earnings expectations although analysts expect a rebound from 2021.

The US Federal Reserve now appears committed to preventing further market illiquidity – where assets cannot be sold without a loss – and disruption, which should make equities less volatile even if a there is a second pandemic wave.

Latest data shows that the main equity indices rose by 3-4% during the last quarter,  apart from, most noteably, the UK, which fell around 3% and put shares at one of the largest discounts to global markets this century, offering investors prepared to accept a higher risk a chance to capitalise.

Challenges in addition to Covid-19, include Brexit where the UK has yet not finalised a trade deal, but several fund managers and economists believe there is unnecessary pessism about this.

The US remains overvalued and September did see some market falls, particularly in tech stocks, while China's economy shows stronger growth than expected.

### FIXED INTEREST

An interesting feature of the current bond market is the closeness of yields between government and investment grade bonds.

These margins, known as spreads, widened considerably in March and April at the height of the uncertainty but have since narrowed significantly, indicating that the bond market, at least, believe the worst of the crisis is over.

This contrasts with banking which is planning for many bad loans. US bank loan loss reserves have risen by $110bn since the crisis began and are now equivalent to 2.2% of loan portfolios, the highest since 2012 during the financial crisis.

It remains to be seen which sector is reading the conditions accurately, but it demonstrates that many traditional market dynamics have changed in the pandemic.

We have seen government debt rise to highest level since wartime, while borrowing costs are at all-time lows.

The case for holding government debt is less convincing now although general economic uncertainty means it is still merits a place in portfolios as a safety valve. Investment grade debt is more attractive although, the difference between yields on government and investment grade bonds have reduced meaning that opportunities remain limited.

High yield and emerging market debt hold greater opportunity but will be more volatile.

## PROPERTY

The UK response to Covid-19 is still evolving after the suspension of all physical funds during lockdown because of valuation difficulties.

The pandemic has accelerated existing property trends as indicated by retail footfall, which slumped around 80% during lockdown although the effects were not evenly distributed.

Retailers selling 'essential' goods, including supermarkets and pharmacies, have remained open.

With unemployment rising, and altered spending habits, it is unlikely enough consumers will return to the high street to prevent more retailers following Laura Ashley and Debenhams into administration.

All this highlights the value of stock picking investments by scrutinising tenants to ensure assets generate enough profits for occupiers to pay their rent.

It is likely that there will be losses from several commercial property sectors in 2020 with warehousing and industrial sectors continuing to thrive.

In the office sector, emphasis may become more about quality than quantity of space with an increase in home and flexible working.

Lockdown also accelerated changes in retail with the popularity of click-and-collect, leading some managers to believe that, while a lot of property will still be required, formats will change.

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## Global round-up

- The European economy is expected to contract around 7-8% in 2020 with gross domestic product (GDP) rebounding to close to 5% in 2021.
- Recent Bank of England minutes show it is laying the groundwork for cutting interest rates below zero.
- Among emerging economies Asia, especially North Asia, remains best placed for an economic rebound.
- Fears about Argentina's economy continue after newly restructured dollar bonds slumped in value.
- China's growth prospects have improved, reflecting a stronger-than-expected recovery.
- Turkey's central bank has raised rates to protect the lira with the repo rate moving from 8.25% to 10.25%.
- Consumer expenditure in Japan plunged amid restrictions introduced in April and May, with retail sales falling nearly 10%.
- Japan's GDP is expected to fall in line with reduced domestic demand and investment while delaying the Tokyo Olympic Games will hit tourism.

"Recent Bank of England minutes show it is laying the groundwork for cutting interest rates below zero."


# So, what's next?

**Issues including Brexit, the US Presidential elections, and widespread political disruption, most notably in Mexico and Belarus, are adding complexity to the economic upheaval.**

Support remains in place with most central banks backing bond markets and governments trying to keep unemployment manageable.

Many observers predict growth in 2021 but this may depend on a vaccine, which remains uncertain, although significant progress is being made

Even at the end of the third quarter, global growth has been significantly damaged. Any recovery is fragile and, whether there is a second pandemic wave or not, countries are far better prepared than in March.

Global post-pandemic economics will be different. Some businesses and practices have leapt forward more than a decade in an acceleration of existing trends while others have failed.

Covid-19 has altered the prospects for many sectors in very different ways: homeworking, schooling, and entertainment have all benefitted technology companies; home eating has boosted food delivery and home shopping has accelerated.

Markets always look forward and proposed vaccines and new treatments allow them to identify better times in 2021 and 2022 but there will not be a uniform recovery as the disruption has polarised global winners and losers more than many investors will have ever experienced.

## About RSMR

**Independent specialist research.**

**RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.**

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our 'R' fund ratings – this rating is given to investment funds that meet our stringent research criteria. We don't limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a 'snapshot' of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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