A month in the markets

Private Banking

By John Mullins

June 2020

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Month of May

Market Review

Throughout much of May, many countries around the world began easing lockdown measures that were put in place in an attempt to contain the COVID-19 outbreak. Weeks of restrictions on movement helped to flatten many countries' infection curves, giving governments the confidence to begin restarting their economies and allowing businesses to open again.

Global stock markets delivered a solid positive performance in May despite the ongoing pandemic and the negative economic outlook. Much of this performance was driven by extraordinary central bank and government action that pumped money into the economy and supported businesses. With interest rates having been cut to low levels and central banks buying up bonds, investors were encouraged to take more risk, and this caused stock markets to rise.

US

Following two months of lockdown measures, the economic damage in the US is clear. Around 40 million Americans filed for unemployment benefits at the height of the economic shutdown, although new jobless claims at the end of the month were lower than previous weeks. Meanwhile, economic growth for the first three months of the year was revised down to a 5% contraction.

Alongside these concerns, tensions between the US and China were reignited yet again. In addition to President Trump's ongoing criticism about China's handling of the COVID-19 outbreak, the US also took a dislike to China's imposition of a national security law on Hong Kong. This effectively takes away the city's autonomy and freedoms. It led to the Trump administration announcing it would end its special economic relationship with the city.

Europe and the UK

Across much of Europe, governments began easing lockdown measures in a slow and cautious manner. While economic indicators continued to show Europe's economy was contracting, there was a sense that it had begun to turn the corner. Consumer confidence increased and the latest IHS Markit purchasing managers' index (PMI) showed the manufacturing sector was contracting at a much slower pace than in April. Meanwhile, Chancellor Angela Merkel and President Emmanuel Macron laid out their plans for €500bn (£448bn) of grants to European economies that were hit hardest by the pandemic.

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In the UK, official figures showed the economy contracted by 5.8% in March and that retail sales fell by 18.2% in April. Meanwhile, government borrowing hit a record £62bn for April and inflation dipped to 0.8%. Nevertheless, there are signs that the worst is in the past. New confirmed cases of COVID-19 are falling steadily and, while output in the manufacturing sector continued to fall in May, the rate was not as severe as the previous month, suggesting a possible rebound in activity.

Asia

The situation in Asia is mixed as each country faces different challenges stemming from the COVID-19 outbreak. During the National People's Congress in May, China's premier announced the country would not have an economic growth target for 2020. As China is known for its ambitious growth targets, this is a signal that growth for the year will be poor.

Nevertheless, China's manufacturing sector appeared to be on the path to recovery in May, with the PMI showing rising output. That said, Chinese economic data must be read with a grain of salt, particularly given that global demand for China's exports remains subdued. Elsewhere, it was confirmed that Japan had slipped into recession after its economy shrank by 3.4% in the first quarter. Japan's economy is heavily reliant on global growth and it has seen tourism and exports fall as a result of the pandemic.

Portfolio Management

Over the course of May, we added exposure to European corporate bonds as the outlook for European companies began to slowly improve. On balance the portfolios are positioned with a meaningful allocation to stock markets complimented by diversification strategies such as safe haven bonds.

Outlook

At this point, we still do not know the extent of the economic damage the pandemic has caused. It remains to be seen whether there will be a large spike of infections, or if social distancing and testing measures will be enough to hold the virus at bay until a vaccine is available. As a result, it is difficult for us to predict what the economic recovery might look like.

In financial markets, technology firms have performed well, particularly those that offer services and solutions that are compatible with social distancing and remote working. While stock markets were buoyant in May, there is still plenty of uncertainty and new risks emerging. For example, China's move to impose a national security law on Hong Kong has the potential to reignite international trade tensions, and President Trump's dispute with big technology firms could spell bad news for the sector. Similarly, Brexit is likely to re-emerge as the UK and the European Union continue to negotiate their new trading relationship and discuss the possibility of extending the transition period beyond the end of the year.

Given the balance between extreme stimulus measures taken across the globe and the continued uncertainty around the COVID-19 pandemic, we maintain a balanced outlook on stock markets in the short-term.

Note: The Portfolio Investments and Atlas Portfolios are Multi-asset, globally diversified portfolios. Although the portfolios may share similar underlying investments in terms of asset and fund selection, they will differ in terms of the way the funds are managed and the proposition in which they are held. Please refer to the Key Investor Information Document (KIID) for details on the objectives of the individual funds. If you have any questions relating to specific differences of the Portfolio Investments or Atlas Portfolios fund ranges, please contact your Private Banker.

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