A month in the markets

By John Mullins

July 2020

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Month of June

Market Review

Throughout June, countries in Europe and North America continued to re-open their economies and ease social distancing measures, allowing certain businesses to begin trading once again. However, the re-opening took place against a backdrop of uncertainty as public health officials stressed that the first wave of the COVID-19 pandemic is not yet over.

Global stock markets broadly went up over the month as investors were reassured by the support of central banks and governments, falling infection rates in many countries, as well as optimism surrounding potential COVID-19 vaccines and other successful medical treatments. At the same time, Government Bonds in developed countries also performed well thanks to low interest rates and inflows from investors seeking safer investments in anticipation of a weak global economy as it recovers from COVID-19.

US

The US economy saw some improvement in June as lockdown restrictions were relaxed and businesses re-opened. The housing market strengthened, retail sales increased – albeit from low levels – and there was an improvement in unemployment figures.

The positive news caused stock markets to rise despite the uncertain economic outlook and a spike in COVID-19 cases as US states re-opened their economies. Data from Johns Hopkins University showed that more than half of all US states saw a spike in new cases over the month, with Arizona, California, Florida and Texas the worst affected, prompting officials to impose new restrictions and roll back re-opening plans.

Europe and the UK

While many European countries re-opened in June, business activity remained below pre-crisis levels. That said, data from the European Commission showed that business and consumer optimism increased in June. Meanwhile, purchasing managers' indices (PMIs) for the services and manufacturing sectors, which measure business activity, rebounded from lows seen at the height of lockdown, although they were still not in growth territory.

In the UK, gross domestic product – which measures the value of goods and services in the economy – was revised down to a 2.2% contraction for the first quarter, the worst seen in 41 years. Similar to Europe, the manufacturing and services sector saw increased activity in June as businesses began to re-open and people started to go back to work, but it remained below pre-crisis levels.

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Asia

In China, factory activity expanded at a fairly strong pace after the government lifted lockdown measures and increased investment. That said, it faced weak export orders, suggesting that the impact of the pandemic will continue to affect the economy for the foreseeable future. China's official PMI showed the manufacturing sector in growth territory in June, while export orders continued to contract. Similarly, China's official survey of activity in the services sector also suggested expansion.

Elsewhere in Asia, data released for the month of May showed that Japan's industrial output fell for the fourth month in a row, dropping to the lowest level since the global financial crisis. Meanwhile, unemployment hit a three-year high. As one of the world's major exporters, Japan, faces the prospect of a deep recession as lockdown measures and weak global demand for goods take their toll.

Portfolio Management

Over the course of June we rotated some of our exposure out of US shares and in to European shares and US technology companies as our outlook for European risk assets improved. On balance the portfolios are positioned with a meaningful allocation to stock markets complimented by diversification strategies such as safe haven bonds. We have also added Gold to some portfolios as a diversifier. .

Outlook

More than three months on since the World Health Organization declared COVID-19 a pandemic, uncertainty continues to reign. Judging by the number of cases still being reported worldwide, we cannot be certain that we are through the worst of the pandemic's first wave yet. We are also only beginning to understand the extent of the economic damage it has caused. While public health officials have gained a better understanding of how to control the virus and prevent hospitalisations, it is unknown if social distancing measures will be enough to prevent future outbreaks. Against this backdrop, the likely economic recovery is difficult to predict as there are several variables at play.

Looking ahead, the prospects for global stock markets are mixed. The US faces several risks in the coming months, including spiking COVID-19 cases, a US election where President Donald Trump is trailing in the polls and the prospect of a renewed trade war with China. Should the Democratic Party win the presidency as well as the US Senate, it will pave the way for more left-leaning tax and regulatory policies that could act as a headwind on share prices. Europe, by comparison, appears more attractive for investors as the €750bn fiscal deal reached by Emmanuel Macron and Angela Merkel raises the prospect of providing financial support to economies worst hit by the pandemic.

We maintain a neutral stance on risk overall as the COVID-19 situation and economic downturn progresses. We do not expect to see stock markets make any major upward movements in the months to come, at least not until an effective treatment or vaccine for the virus is discovered. Within stock markets, we are investing in cyclical sectors and regions that we believe will provide returns in the short-term, examples being technology companies and European Shares.

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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