A month in the markets

By John Mullins

October 2020

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Month of September

Market Review

It was a challenging month for investors in September as COVID-19 cases surged once again and technology shares fell. Early in the month, there were signs that economies were recovering faster from the pandemic than first predicted. The UK, US and Eurozone saw continued growth in the manufacturing and service sectors, albeit at a slower rate than previous months. However, there were growing concerns that rising infection rates might impede the recovery.

US

It is difficult to discuss the US without mentioning the Presidential Election. The majority of opinion polls continued to show Joe Biden with a sizeable lead over President Trump in September, suggesting that the race may be his to lose. Lagging in key states such as Florida, President Trump has a narrow and difficult path to victory, although the Election is still a month away and anything can change.

Throughout the month, US stock markets struggled. This was in part because the Democrats and Republicans continued to lock horns over a new stimulus deal that would support small businesses and provide additional employment benefits to workers affected by the pandemic. There was some positive economic news, as pending home sales hit a record high in August and private payrolls accelerated in September.

Europe and the UK

The UK Office for National Statistics said the economy shrank less than first believed during the second quarter and revised its reading upward to 19.8% from 20.4%. However, this remains the largest contraction on record and, coupled with the 2.5% contraction seen in the first three months of the year, it means the UK is in its deepest recession in modern history.

Nevertheless, there are promising signs that the recovery has been much stronger than first expected. Retail sales increased for the fourth consecutive month in August, both the manufacturing and services sectors reported rising activity in September – albeit at a slower rate than the previous month – and the proportion of the

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UK workforce on furlough fell to around 12% in early September from 30% in May.

In Europe, September was a slightly weaker month for economic activity as the composite purchasing managers' index, which measures activity in the manufacturing and services sectors, stagnated. This was driven largely by a downturn in the services sector, which was offset somewhat by solid growth in the manufacturing sector, with Germany leading the way.

European stock markets outperformed many other global markets over the month, including the US, which was a notable underperformer.

Asia and emerging markets

Stock markets in Asia-Pacific and the Emerging Markets performed poorly over the month, driven lower by concerns about rising COVID-19 cases and weaker investor sentiment. China saw a surge in manufacturing output and recorded increased activity in its services sector, according to the country's official purchasing manager's index.

In Emerging Markets, the recovery is uneven as each country faced different infection rates and social distancing measures. Brazil and Turkey, for example, saw a robust expansion in activity in July and August, while Mexico remained fairly depressed.

Portfolio Positioning

Over the month, we reallocated from European to US shares as the outlook for global growth slowed and a second wave of COVID-19 materialised.

Outlook

As we enter the final months of the year, two major question marks hang over stock markets: the outcome of the US Presidential Election in November and the chances of a COVID-19 vaccine becoming available by the end of the year. With Joe Biden currently expected to take the White House, the big question is whether the Democrats can also gain control of the Senate, which is a much more significant challenge. On the virus front, there is some expectation that a vaccine will be ready early in the new year, which will be a major boost for financial markets.

At present, the backdrop for stock markets is positive. The scale of the monetary and fiscal support from central banks and governments has been strong and economic activity is pointing towards something resembling a V-shaped recovery. However, rising COVID-19 cases remain a concern because it could derail the recovery. Overall, we believe there is room for shares to perform well in the current climate, but we are unlikely to experience the same strong returns that we saw in the spring.

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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