3Q 2020 Commentary

The COVID-19 pandemic continues to dominate headlines. Following the considerable easing of national lockdown over the summer months we are now experiencing local lockdowns, and the possibility remains that a full national lockdown will return in the forthcoming winter months. The expected near term economic data is likely to confirm some strong rebounds, but economic activity will inevitably be weakened over the coming winter season if greater quarantine measures are required.

The US Federal Reserve (Fed) and other central banks have pledged to keep interest rates low for the foreseeable future. The Fed has also adjusted its target inflation rate, and is now adopting a more flexible approach to inflation. We fully expect governments to persist with their much-needed rescue packages for industries and consumers. The second quarter earnings season from companies was mostly encouraging, and analysts are expecting the imminent third quarter results to be supportive to current stock prices. Company guidance on earnings, though, continues to be muted.

Following the very sharp drop in the price of oil earlier in the year, it continued to recover over the summer. It is possible that the oil price may now consolidate its recent gains, and any future price movements will be determined upon a better understanding of the pandemic's economic impact and forecasts.

US equities continue to lead in terms of global equity performance, though the US technology sector has seen some recent consolidation following very strong returns. It is encouraging to see that economic activity within China is returning to more normal levels, and their exports have rebounded very sharply following the contraction in the first quarter.

European equity markets have lagged behind the improving performance of the US equity markets. The UK equity market, in particular, has struggled to recover from the sharp falls in the first quarter, and the index of the leading 350 shares is currently down approximately 20% year-to-date.

The UK market's recovery has suffered due to its high exposure to 'old economy' companies such as banks, fossil fuels and mining, and its low exposure to 'new economy' sectors such as technology. In our opinion, UK equities look good value, especially as they are currently trading on the greatest discount to global equities for the past 50 years.

The recent local outbreaks of the virus remind us that the phase we are currently in is one of management, and which is dependent upon civil adherence to rules/guidance, and the success of the 'track and trace' technology. Working from home is still very much encouraged and, clearly, the leisure and hospitality sectors will struggle over the upcoming colder months in the northern hemisphere.

There continues to be some encouraging news with regard to treatments and potential vaccines, with a number of leading medical research centers now working on human trials. It will, however, take some time for any vaccine to be available for mass inoculation, so there remains a risk of potential bouts of volatility.

Geopolitics are likely to dominate the final quarter of the year; the US presidential election is now only a few weeks away, and of course there are the ongoing final Brexit trade negotiations. We will continue to remain vigilant to newsflow and take appropriate action as required.