Summer 2020

market outlook.

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The UK Economy

UK GDP contracted by 2.2% in the first quarter of 2020, however, with the lockdowns not in place until near the end of this period, a much steeper fall should be expected in the second quarter.

Looking forward, with UK lockdown restrictions having eased, and composite PMI's rising sharply in June, the third quarter of 2020 should see a sharp rebound in GDP.

The Bank of England has already ramped up its support for the economy by expanding its bond-buying programme, however, we expect it will do more by cutting UK interest rates further, possibly even below zero. On the fiscal side, the government announced several measures to support the food and beverage industry, pledged extra spending on infrastructure and increased the threshold for stamp duty land tax.

Corporate earnings have been mixed, several business have been temporarily impacted by coronavirus whilst others have seen exceptional growth demand. Several companies have announced cost-cutting plans as well as cash-conservation measures such as dividend cuts.

The Japanese Economy

The coronavirus has put further pressure on the Bank of Japan, seeing them increase the already record breaking Quantitative Easing (QE) programme further. This has still not staved off deflation worries, and with the prospect of some QE being withdrawn over the coming years as the pandemic subsides, potential for deflation becomes a concern.

Prime Minister Shinzo Abe's disapproval rating hit its highest since 2012 due to a perceived lack of leadership during the pandemic that has seen a resurgence in the virus. This comes amidst suspicion that Abe is ill, after him not attending or giving many public addresses over the past quarter, adding to uncertainty for the region.

Despite a high job-to-applicant ratio and low unemployment, wage growth is still low. As such, the economy continues to be littered with uncertainty, however, under-researched small and midcap companies still look attractive on a valuation basis.

The Emerging Markets & Asia Economy

Despite a resurgence of the coronavirus in China and India as lockdown measures were eased, valuations remain extremely attractive in many regions.

Unlike the western world, many Asian and Emerging Market countries do not have a 'furlough' type scheme in place. As such, we have likely already seen the impact on economic data (such as unemployment, wage growth, inflation), as future data is less likely to be distorted by the winding up of policy.

Whilst we are not ignorant to the escalation of trade frictions between China and the US that has seen the US look to ban social media apps such as WeChat and TikTok, Chinese markets priced in much of the trade uncertainty back in 2018.

Even with areas such as South America looking weak, with Brazil failing to address the Pandemic and Mexico's lack of policy implementation in recent years, many Eastern nations such as China, South Korea and India have seen a recovery in retail sales, consumer confidence and trade respectively. This is a positive for markets over the coming months.

The US Economy

Whilst the coronavirus remains on the rise in the US, the government seeks to gain approval for a further stimulus package to aid companies and individuals through the pandemic. As such, US markets have risen steadily on a wave of positive sentiment with US tech giants (Apple/Amazon / Alphabet/Facebook) all benefitting from individuals utilising more of their products during the lockdown.

The Federal Reserve Bank reinforced their accommodative stance in their July FOMC (Federal Open Market Committee) meeting, keeping interest rates at 0.25%. They confirmed rates would remain low for some time to come, and continue the current pace (if not look to increase) the rate at which they are purchasing Treasuries and Mortgage Backed Securities. This is a positive for sentiment.

Donald Trump continues to lose the faith of the American public ahead of the November US election. However, despite Joe Biden gaining ground, the market has been agnostic. As, in reality unless the Republicans lose both the House and the Senate, there will be largely no change as both are looking to address the pandemic fallout and trade.

With current policy measures in place for some time to come, growth names seeing a compression from their highs in recent years, it seems likely 'growthier' sectors such as technology will continue to do well at least over the short to medium term, being treated as a proxy defensive. Whilst value sectors such as the banks, in addition to the bond market, will suffer from a low rate environment.

The European Economy

The resurgence of a second wave of the coronavirus in countries such as Germany and Spain has injected some uncertainty in European markets. However by enlarge, over the long-term, valuations continue to look attractive awaiting a catalyst.

The European Central Bank (ECB) has committed to purchasing a further 600billion of bonds to keep the market liquid, extending the programme out to June 2021. This increase of the Pandemic Emergency Purchase programme takes it to 1.35trillion, aiding in stimulating lending, spending, inflation and employment through the current environment.

Whilst bolstered by stimulus and attractive long-term valuations in a number of sectors, the ECB's original fiscal stimulus plans have been put on hold due to the requirement of capital to fund European economies during the pandemic, adding an element of uncertainty.

Fixed Interest

Whilst central banks may not have delivered identical support packages, (for instance, the Bank of England programmes mainly targets UK government debt), in general, it has been a period of explicit and aggressive support from central banks for debt markets. We expect central banks to remain accommodative for a sustained period.

The last three months have seen corporate bonds perform very well, recovering most - if not all - of the losses seen in March.

Corporate issuance slowed in July, following four months of huge issuance. Issuance is likely to remain lower as we head into the summer.

Government debt now yields little, if anything at all; the UK has negative yields on a large amount of its debt, which echoes what has been seen previously across Europe and Japan. Relative to Government Debt, corporate bonds still offer reasonable value, however, with all in yields very low, the outlook for returns in the medium term is modest.

If you would like to discuss this or any other aspect of your portfolio, please do not hesitate to contact us on **0800 028 3200**, Monday to Friday 9am-5pm or you can email us at **mywealth@wealthatwork.co.uk**

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