MARKET UPDATE

October 2020

October saw volatility in global markets rise, led by a resurgence in global coronavirus cases, the US Presidential Election and a lack of agreement around a US fiscal stimulus package and Brexit.

SECOND WAVE HITS

European equities were amongst the hardest hit in October as Germany, France, Belgium and Greece all unveiled plans for a second lockdown in October, and England followed suit shortly after the month end. It is easy to feel gloomy about Covid and the potential impact on the economy and markets. Markets are strongly influenced by sentiment in the short term, but it's all about earnings in the long term and we have seen multiple M&A bids in the last few weeks from experienced investors who see value in the near friendless UK market. Interestingly, despite the cuts in dividends this year, the UK is still the highest yielding G10 equity market (source RLAM). In a world of lower for longer interest rates, that yield should be attractive.

NOT JUST EQUITIES THAT STRUGGLED

Bond buying by central banks continues to underpin investment grade corporate debt prices, but high yield debt pricing may currently underestimate default risks. Moody's expects US speculative grade default rates to rise to 9 per cent from the current 8.6 per cent, with issuers in advertising, printing and leisure sectors remaining vulnerable.

Property funds have recently begun to reopen, although some do remain closed (including some held in BAM portfolios). The reopening is mainly determined by the levels of liquidity that each fund has - although some property fund managers are waiting for more clarity around the FCA's recent consultation on the asset class. There has also been the cloud of an FCA consultation hanging over the Property sector centred around notice periods and tax wrapper availability. We expect a statement in January as to the FCA's plans. Nothing will happen overnight and we will have time to plan accordingly.

CHINA LEADS THE WAY

Asian markets were resilient with strong Chinese data in the month. China's economic activity has almost fully recovered to pre-pandemic levels, with strong export demand driving the country's manufacturing output reaching the highest level since January 2011. While retail sales have lagged the strong recovery seen in other sectors, there's room for private consumption levels to rise as the economy heads into 2021, and they appear to have Covid levels under control.

WE HAD TO MENTION...

Following the end of the month there have been several major events which have had a significant impact on markets, so it worth commenting on them briefly, namely the US election and positive vaccine news.

A Biden victory has now been called, but at the time of writing Trump has not yet conceded. This has buoyed markets around the world. While this is positive on the face of it, don't expect the US China trade tensions to disappear; they are very much a natural derivative of the fact that the world's two largest economies have very different political and social structures.

We then had preliminary Pfizer analysis showing that the first Covid vaccine was around 90% effective. In the words of Boris Johnson it is no "slam dunk" but it certainly gave markets a shot in the arm.

We felt we also had to mention the suspension of the historic listing of Ant Group, as China wants to be sure a suitable regulatory framework is in place for the country's fast-growing fintech industry. Extra caution is justified on size alone. To put things into perspective, in 2019, Ant processed $16 trillion of payments – that's nearly 25x larger than PayPal. Plus to give some sense of how anticipated this deal was, individual investors in mainland China had placed more than USD 2.8 trillion of orders for the IPO. That's more than the value of all stocks listed in Germany (source Allianz GI).

SOCIAL IMPACT MODEL

PERFORMANCE SINCE INCEPTION IN 2016

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

*5 Years to 15/08/2020 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

BALANCED MIXED ASSETS MODEL

FOCUSED GROWTH MIXED ASSETS MODEL

BAM figures take into account normal dealing costs but not Beckett fees. Source: FE Analytics – Total Return.

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