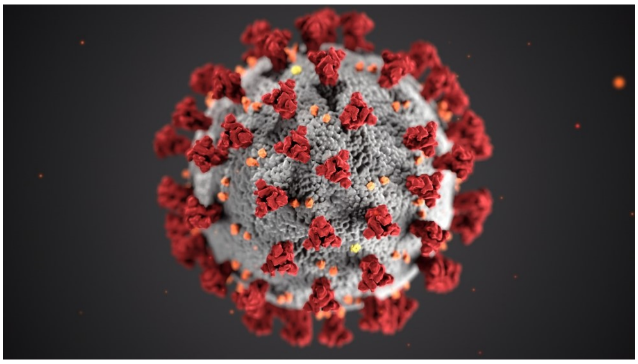
CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY

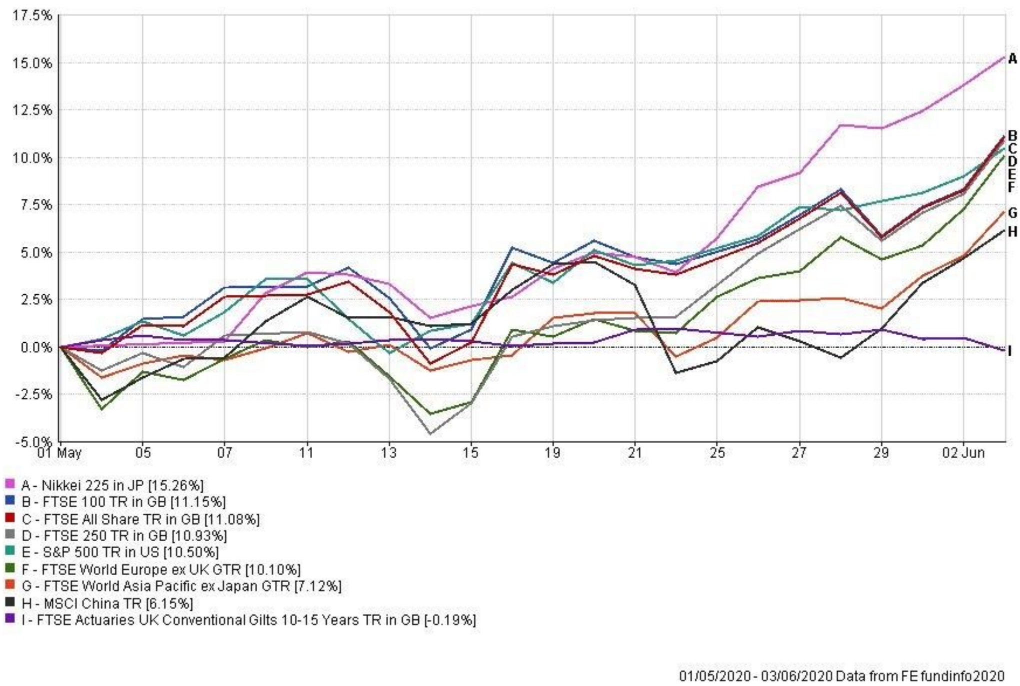
4 JUNE 2020



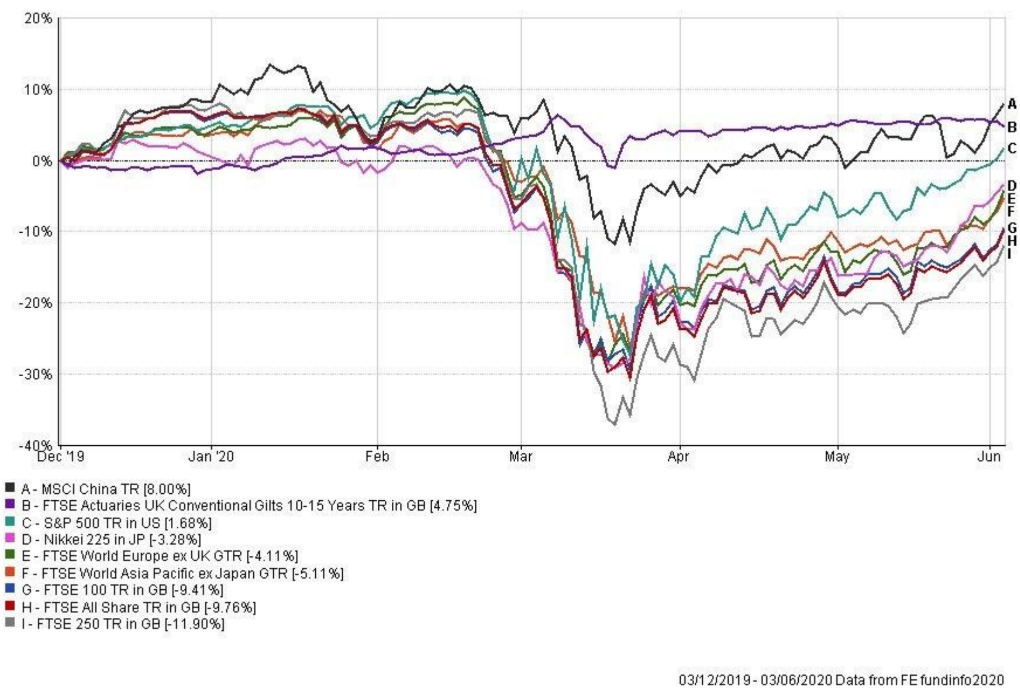
OVERVIEW

It now appears that some degree of confidence is returning to investment markets as many countries loosen their lockdowns further as the spread of COVID-19 thankfully continues to lessen. Economies should start to pick up as people return to work and demand for goods and services gradually increases. This more optimistic outlook is reflected in the performance of equity markets with strong performance over the past month and the US and Chinese markets now above their levels of six months ago. Riskier assets have performed well in the short-term whilst 'safe haven' assets such as government bonds, the US dollar and the Japanese yen have weakened. Emerging markets in particular, benefit from the lower US dollar.

INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES OVER ONE MONTH



INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES OVER SIX MONTHS



Economic indicators point to a moderation in global economic weakness although still signalling a severe recession. Global economic activity contracted sharply in May – falling for the fourth consecutive month. The rate of the decline eased from April lows. The statistics indicate that the global economic contraction is occurring at a rate of around 3% pa, better than the contraction rate of -7% pa in April. Overall, the easing of lockdowns around the world is having an impact as would be expected. All sectors have been severely affected although the services sector, which includes hospitality, travel, tourism and retail, is likely to take longer to recover as social distancing measures are likely to be in place for some time to come. China has proved the exception as regards economic expansion as it was the first country in lockdown and the first out. The output from the Chinese manufacturing and services sectors rose at the fastest pace since January 2011. This growth has been largely driven by domestic demand, whilst exports have been weak. The concern remains that unemployment in developed economies is likely to remain high as companies weakened over lockdown lay staff off. Demand may then remain weak impacting on the recovery of the global economy.

Central banks and governments continue to announce stimulus programmes to support economies, which have proved beneficial for investment market sentiment. The Japanese government announced a $1.1 tn package including direct spending measures to support businesses, which together with a programme of a similar magnitude announced last month is aimed at boosting Gross Domestic Product (GDP) by 6.4% pa. The European Union has announced plans for a €750 bn package to help the region recover, with about €500 bn to be offered as grants to some member states and a further €250 bn available as loans. The European Central Bank has increased its Pandemic Emergency Purchase programme by a further €600 bn bringing its total monetary stimulus package to €1.35 tn. Germany has agreed a €130 bn package to support consumer spending and business investment. VAT is to be reduced temporarily and various infrastructure projects have been announced. Germany has also proposed a €9 bn bailout of Lufthansa, although this is subject to the approval of the EU. France has also stepped in to support its car industry.

Whilst equity markets appear to be emerging from the immediate impact of COVID-19 on some economies, there remain strong concerns about the impact on India and South America, a possible second wave elsewhere and geo-political developments. The strained relationship between China and the US continues as China looks to introduce security legislation for Hong Kong and trade tensions have heightened once again. The progress or otherwise of the Brexit trade deal agreement is likely to impact on the strength of sterling and the UK equity market.

We have issued more regular investment commentaries over these difficult and fast-changing times for our clients, as markets plummeted in March and recovered strongly from their lows. As markets appear calmer, we will revert to our monthly updates but will issue interim bulletins if circumstances dictate. **The challenge for governments now is to support economies in recession, as demand has fallen and furlough schemes end.** Governments are deeply indebted and yet need to take measures to encourage economic growth so that the job market and investment improves, whilst economic recovery takes hold. Equity markets will be impacted by this progress together with how well companies have coped with these unprecedented conditions and their perceived positioning for the future.

The CM Investment Commentary is compiled by Angela Cooper, Managing Director of Cartlidge Morland's Investment Services team.

Angela runs the firms' investment management propositions, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.

OUR PERSPECTIVE

Markets have staged strong gains from the lows tested in March and clients have regained portfolio losses to a considerable degree. Those relying on their investment for income need yields – dividends/interest/rental income – and wider investment conditions have placed these in jeopardy. With dividend cuts/deferral/cancellation, delinquent commercial tenants and lower interest rates, the continuing level of portfolio yields is uncertain. Until losses are fully recovered and there is profit, investors' income is being paid largely from capital – which is highly undesirable.

We are ensuring that we continue to hold ample cash to cover income payments and raising it from bonds and other areas of exceptional gain where further income is required. We are avoiding reduced exposure to equities as we believe markets will recover further as lockdowns ease, for all that volatility will continue.

There remain considerable uncertainties concerning both sovereign and corporate and this in turn clouds both the shorter and medium term outlooks for investors. One view brave people are calling the commencement phase of a new 'bull' market is fired by fresh central bank/ government stimulus and easy credit. Others see only severely damaged corporate/sovereign balance sheets and believe the scope for earnings growth/investor returns to be severely constrained. The World's free market economy is reassuringly dynamic and the reality is that whilst more will fail under prevailing conditions, others will most certainly prosper. There are always profitable opportunities available to investors even though sometimes they have to wait for the benefits to flow. Not all pitfalls can be avoided, nor prevailing economic investment conditions ignored but most of the World's economy will still be there post COVID and it will continue to offer rewards to those who invest in its future.

As always if you have any concerns please contact your usual Cartlidge Morland Partner/ Director/Consultant.

Please note that the CM Investment Commentary is returning to its normally monthly publication schedule unless there are further serious and urgent disruptions to the financial markets.

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