CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

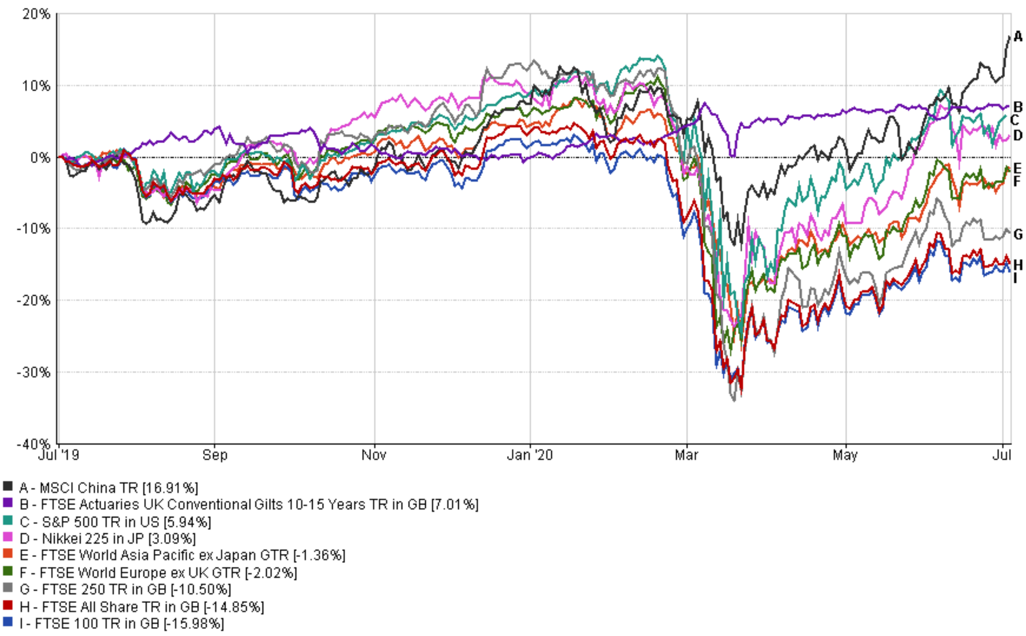
INVESTMENT COMMENTARY

3 JULY 2020

OVERVIEW

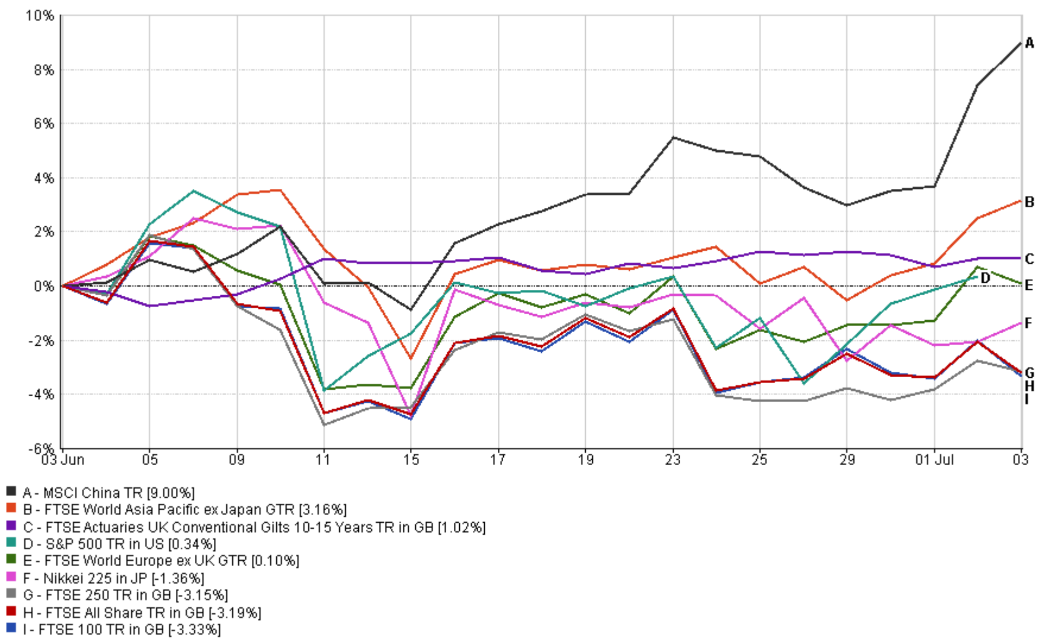
The major global equity markets have recovered from their earlier 2020 lows with many countries gradually moving out of lockdowns as the spread of the Covid-19 virus has been contained. However, there is still potential for equity market volatility if cases start to increase, as has been seen in some US states where perhaps lockdown was lifted too early. Infection levels in South America, India, Pakistan and Russia remain of concern. The search for a cure and/or vaccine continues with news of positive developments likely to be supportive of markets.

INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES OVER ONE YEAR



03/07/2019 - 03/07/2020 Data from FE fundinfo2020

INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES OVER ONE MONTH



03/06/2020 - 03/07/2020 Data from FE fundinfo2020

Economic growth figures remain weak across the world as the pandemic has led to the most severe recession in over a century as economies have been locked down. UK gross domestic product (GDP) fell over 20% in April - the largest monthly contraction on record. The UK economy's reliance on the service sector has led to its economy being more greatly impacted than other economies such as the US which fell around 11% in April. However, China has seen its industrial output grow as it has emerged from its lockdown and economic indicators for June point to the major economies contracting at a slower rate than in May, as countries begin to ease their lockdowns and businesses start to reopen. According to the latest figures, the UK manufacturing sector expanded in June. US employment figures have improved at a record rate as various states have re-opened. Central banks around the world remain supportive of their respective economies. The Bank of England (BOE) has increased its asset purchase programme whilst Bank Rate remains at a record low of 0.1%. The US Federal Reserve, the European Central Bank and the Bank of Japan continue with their low interest rate policies and asset purchase programmes.

Boris Johnson has announced a £5bn spending programme to support a recovery in the UK economy including major infrastructure projects. The US will also consider a bigger fiscal stimulus programme if the virus infection rate continues to increase rapidly. The EU has yet to agree the terms of its €750bn recovery plan.

Whilst the ongoing concern about the continuing high level of Covid-19 infections around the world persists, geo-political issues also have the potential to cause investment market volatility. China passed a national security act so limiting freedoms in Hong Kong which has strained relationships around the world further. The post Brexit trade deal negotiations continue, but as yet with no sign that an agreement is close. The UK is emphatic that the transition period will not be extended.

Uncertainty will continue to abound whilst the Covid-19 daily infection rate increases and a cure/vaccine is unavailable. Although economic indicators point to economies recovering as they come out of their lockdowns, the extent of the impact of lockdowns will be reflected in unemployment levels around the world. They may well increase as government employment support packages are wound down and companies may be unable to restart trading. Alternatively, companies may resume their pre-lockdown activities, albeit gradually. Equity markets will await Q2 results and trading statements as companies and economies reopen. The equity market will react accordingly.

Portfolios have recovered from losses experienced over the last three months and losses over the past year are in low single figures except where portfolios have significant exposure to UK equities, particularly UK equity income funds, as dividends have come under a lot of pressure during the Covid-19 induced recession.

Our UK equity positions have reduced as a result of market falls. We intend not to add to UK equity fund holdings but look to international equities, in particular the US, to gain more exposure to growth sectors such as technology and healthcare, which are likely to remain relatively resilient during these challenging times. Where gains have been made in low risk assets such as gilts, these will be recycled into higher risk bonds or equities to maximise returns in the longer term.

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 VIEW

The reality currently is that the global economy and companies are in unprecedented territory in modern times. The developed economies have endured a period of comparative inactivity which has lasted several months. It is too early to accurately predict the long term effect on consumer and corporate behaviours. Consumer spending may remain depressed because with high unemployment/less job security, consumers may feel uncertain of their immediate financial prospects. Equally, many will have appreciated the easing of pressures to spend and may have reined in spending permanently. Whilst a higher savings rate would do the UK much long-term good, shorter term it may hamper both domestic and global economic prospects.

Some quoted companies (or their subsidiaries) have already entered administration and others are undoubtedly heading there. Some businesses were simply too fragile to endure an extended period of disruption to their cash flows. The majority of businesses will survive – but the question will be how badly damaged they are – and to what extent they will prosper in a changed environment. Others will emerge comparatively unscathed and will undoubtedly benefit at the expense of weaker competitors.

The FTSE 100 companies are looked upon as increasingly dull businesses – but the majority provide strong cash flows that are truly global in their source. Most of these businesses are profitable, they usually issue high dividends and they are not heavily geared. In general terms, the FTSE 100 remains a great 'value' opportunity – but until the UK has proved it can de-couple from the EU and remain a successful open, international economy, investors will remain hesitant. The UK has some incredibly dynamic mid-cap and smaller companies too. Some export successfully, but many are reliant upon domestic business/consumer demand. With the outlook for the UK generally viewed as uncertain presently these companies are also viewed sceptically from abroad.

With sentiment towards the UK so negative presently, investors have little choice but to accept the additional currency risks in investing more heavily in those overseas markets which have little difficulty in finding favour with investors. The same sentiments overshadow the Sterling debt market too – Sterling corporate bonds are likely to offer better yields whilst the outlook for the UK and its businesses is viewed more negatively than alternatives. However, in overall terms the Bank of England's quantitative easing programme will serve to keep a lid on yields whilst supporting the value of gilts and investment grade corporate bonds.

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

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