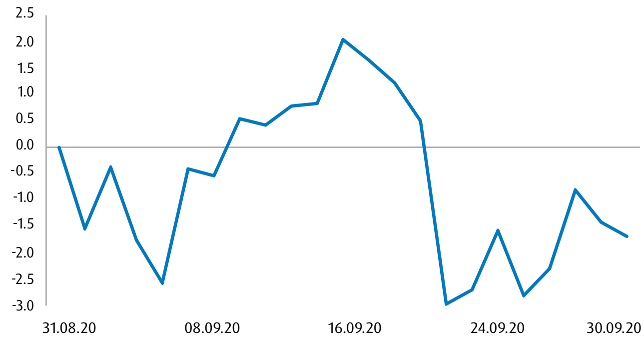
Market reviews – Local

September 2020

UK

The FTSE All-Share Index fell 1.7% in sterling terms during September. The UK economy grew 6.6% in July, its third consecutive month of expansion, though output remained well below pre-Covid-19 lockdown levels. The Bank of England warned it could take the economy longer to recover than previously forecast. Faced with rising Covid-19 infections, the UK authorities brought in fresh restrictions, while advising people to once again work from home where possible. Although the UK agreed a free trade deal with Japan, it was at loggerheads with the EU on post-Brexit trade terms, with the UK government proposing legislation to override elements of the EU withdrawal agreement. In terms of sectors, forestry & paper and leisure goods outperformed, while oil & gas producers and oil equipment, services & distribution lagged.

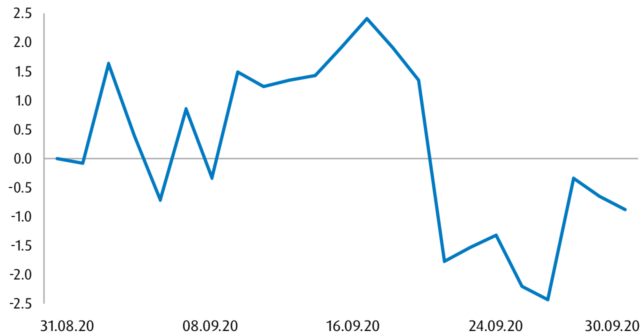
FTSE All-Share Total Return (TR) GBP (%)*



Europe

The FTSE World Europe ex-UK Index returned -0.9% in euro terms. The eurozone registered deflation for the first time in four years, with a reading of -0.2% in August versus inflation of 0.4% in July. There was concern of further downward price pressure to come given the impact of factors such as low energy prices and euro strength. German industrial production for July disappointed forecasts, while eurozone retail sales also declined in the same month, raising fears that the post-lockdown, nascent recovery was losing traction. Monthly eurozone purchasing managers' survey data for September were mixed, with a fall in services activity contrasting with a rise in manufacturing. In line with the trend of the previous month, Covid-19 cases continued to increase over September, with new daily infections reaching fresh highs across certain European countries.

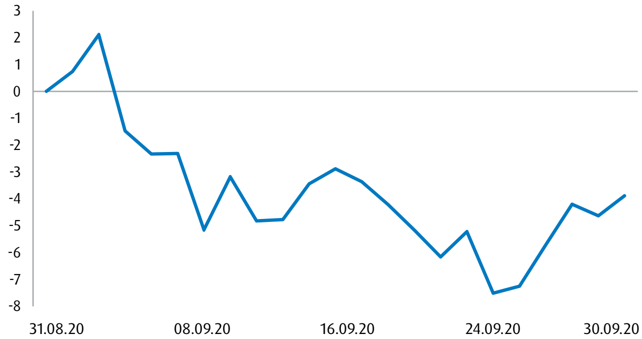
FTSE World Europe ex UK TR EUR (%)*



US

The FTSE All-World North America Index fell 3.9% in US dollar terms over September. There was weakness among US technology stocks, with the sector giving up some of its strong year-to-date gains. The US economy continued to add jobs over August, though at a slower pace than in July, with US unemployment at 8.4% in August compared to 14.7% at the peak in April. The Federal Reserve (Fed) forecast interest rates to remain at near-zero levels until at least the end of 2023. Fed chair Jay Powell warned the nascent US economic recovery could be endangered without agreement from US lawmakers on a new stimulus package. Trade tensions between the US and China remained elevated, with the Trump administration bringing in restrictions on exports to China-based chipmaker Semiconductor Manufacturing International Corporation on national security grounds.

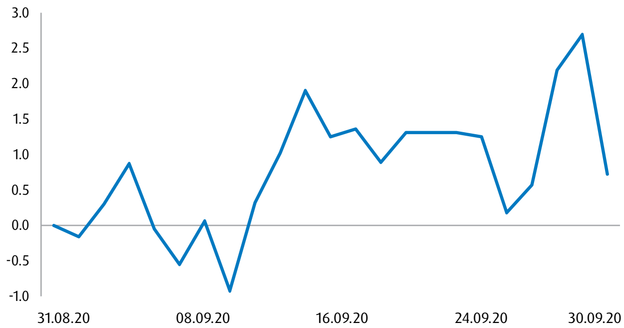
FTSE All-World North America TR USD (%)*



Japan

The FTSE Japan Index returned 0.9% in yen terms during September, with a strong rise in the yen versus the pound boosting returns for UK-based investors. Yoshihide Suga became Japan's next prime minister after winning the nomination of the country's Liberal Democratic party and succeeding Shinzo Abe, who resigned on health grounds. Suga is a strong supporter of the Bank of Japan's monetary stimulus efforts and of close links with the US. Japanese exports fell by 14.8% in August year on year, with a pronounced decline in shipments to the US. Japanese industrial production was down 13.3% year on year in August. Domestic consumer demand was generally weak, with retail sales falling 1.9% year on year in August versus a 2.9% decline in July. Japanese inflation was at 0.2% in August versus 0.3% for July.

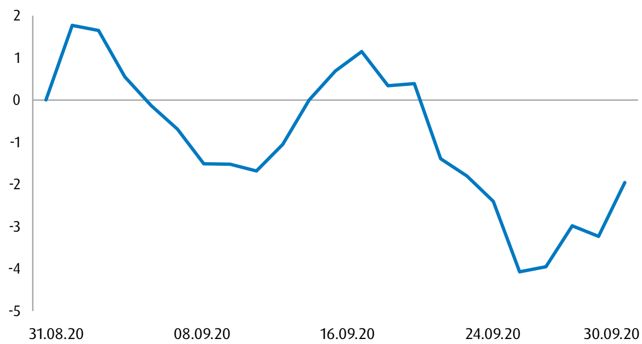
FTSE Japan TR JPY (%)*



Emerging Markets

The FTSE All-World Emerging Index fell 1.9% in US dollar terms over September. Mexico outperformed, with the country's central bank cutting interest rates by 0.25%. Turkey was another bright spot, helped by more encouraging economic data. Turkey's central bank announced a surprise 2% hike in interest rates as it sought to defend the lira. Indonesia sold off sharply after the government reintroduced restrictions to halt the spread of Covid-19. Russia underperformed over the month, hindered by the country's rising Covid-19 case levels, lower oil prices and worries over the prospect of harsher US sanctions. Brazil continued to suffer from political and economic worries, despite some slowdown in its Covid-19 infections. China was held back by profit taking following its strong recent run.

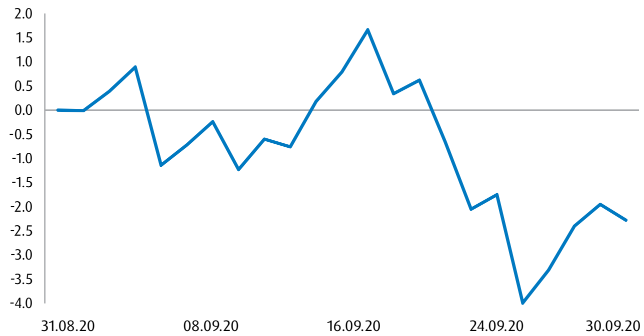
FTSE All-World Emerging TR USD (%)*



Asia Pacific ex Japan

The FTSE World Asia Pacific ex Japan Index returned -2.3% in US dollar terms. Korea and Taiwan advanced strongly over the month, both supported by rising exports. Australia underperformed against commodity price weakness. Thailand suffered from domestic political and economic worries. Singapore was held back by weakness across its financial sector. Hong Kong was hindered by concern over the impact of rising US-China tensions. The Trump administration announced restrictions on US exports to Chinese chipmaker Semiconductor Manufacturing International Corporation on national security grounds. Chinese economic data was generally positive with business survey data pointing to accelerating expansion in the manufacturing and services sectors during September. Data also highlighted a year-on-year rise in Chinese exports for August.

FTSE World Asia Pacific ex Japan TR USD (%)*



Government Bonds

Global government bond yields ended the month little changed. The Federal Reserve forecast US interest rates to stay at near-zero levels until at least the end of 2023. Separately, Fed chair Jay Powell warned that the US economic recovery could falter without a new fiscal stimulus package. The US economy continued to add jobs over August, though at a slower pace than in July. US inflation rose to 1.3% in August versus 1% in July. In contrast, headline eurozone inflation was at -0.2% in August versus 0.4% in July, the first deflation reading in four years. European Central Bank president Christine Lagarde warned deflation was likely to persist over the coming months, citing the impact of low energy prices, euro strength and a temporary reduction in Germany's VAT rate.

Corporate Bonds

Global corporate bonds were little changed over September. New issuance activity was relatively buoyant against robust demand for corporate debt. Along with raising cash and refinancing debt, issuers also sought to finance resurgent M&A activity. Japanese car maker Nissan Motor issued $8bn in US dollar corporate bonds to help shore up its balance sheet as its sales remained weak. Global economic data was mixed, with a rise in headline US inflation contrasting with eurozone deflation over August. The Federal Reserve forecast US interest rates to remain at near-zero levels until at least the end of 2023. There was some concern that failure by US lawmakers to agree fresh stimulus measures could derail US economic recovery. US-China trade tensions remained elevated, with the US imposing restrictions on exports to China-based chipmaker Semiconductor Manufacturing International Corporation.

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*Source: Lipper to 30-Sep-20, total return. Indices rebased to zero at 31-Aug-20.

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