June 2020 Market Review

evidence based investments

Global Equities Markets (%)						
As of 30/06/2020	1 Month	3 Months	YTD	I Year	3 Years	5 Years
MSCI Asia Pacific (ex-Japan)	8.5	17.9	1.2	3.8	17.0	58.2
MSCI Emerging Markets	7.4	18.5	-3.3	-0.5	11.2	46.6
MSCI Europe (ex-UK)	4.9	18.1	-2.6	0	9.2	46.7
MSCI ACWI IMI	3.3	20.3	-0.4	4.2	23.6	71.2
S&P 500	2.1	22.0	3.9	10.7	42.7	111.9
FTSE All Share	1.5	10.2	-17.5	-13.0	-4.6	15.2

Source: Morningstar

Overall Market Backdrop, June

- The US and UK equity markets saw a volatile month with initial gains from the start of the month melting away by the end.
- Emerging markets and Asian markets performed well in the month with returns of 7.4% and 8.5% respectively.
- US Treasury yields saw a month of drama. The first week saw a drastic increase in yields fuelled by economic reopening. Similar to equities, fears of a second wave for the ongoing pandemic drove yields back to where they started the month.
- Momentum was the strongest performing factor this month with a return of 7.2%.
- Despite facing downward pressure, oil prices have continued to increase throughout the month.
- June saw a consistent theme of governments around the world adding additional economic stimulus.

Drivers of Market Conditions in June

1 Global equity markets continued to rally in the opening week of June continuing the momentum of April and May. The rally proved short lived as rising fears about a second wave of COVID-19 cases across the world eradicated most of the gains for the month. Volatility peaked on June 12th when US markets dropped more than 5% led by energy and financials stocks.

2 US Government yields have seen two phases in June, the first half saw US 10-year Treasury yields rise 25bps to 0.90% after a stronger than expected jobs report. The second half saw yields driven down to 0.63%; due to fears of second wave of COVID-19 and the FED signaling they will be keeping interest rates low through 2022.

3 UK 5-Year Gilt yields hit historical lows in the month reaching negative yields.

4 The unprecedented amount of economic stimulus seen in recent months continued in June:

a. The U.S. Federal Reserve (Fed) announced the implementation of the corporate bond purchasing component of their Secondary Market Corporate Credit Facility (SMCCF) on 8th June. The Fed has now a wider range of eligible individual corporate bonds it can purchase through the scheme.

b. The Bank of England (BoE) announced an additional £100 billion of quantitative easing. This is a continuation of the £200bn boost to its bond buying programme back in March.

c. The European Central Bank (ECB) continued to provide aid for eurozone economies, adding 600 billion euros (£539.77 billion) to its emergency bond-buying scheme. The total is now 1.35 trillion euros.

d. The Bank of Japan (BoJ) announced aid and further increased coronavirus loans by ¥35 trillion. The total amount of support is now over ¥110 trillion.

5 Over 11 countries have reimposed some, or all, lockdown restrictions to prevent a second wave after virus cases began to rise with local flare ups. This includes the USA, Japan, China, South Korea and Germany.

6 While some countries are taking measures to prevent a second wave of COVID-19, others are still suffering from a sharp first wave; Brazil, Mexico and India are suffering from daily increases of cases and deaths.

7 With the OPEC production cut agreement, oil prices have been steadily increasing in June. Brent Crude Oil price has increased to $41.3 per barrel, an increase of $2.98 for the month.

8 Figures from the Office for National Statistics (ONS) is starting to show the effects of COVID-19 onto the labour market; UK workers on the payroll fell by more than 600,000 and Universal Credit claims rose 23.3% month-on-month in May to 2.8 million. This is an increase of 126% since the UK was placed in lockdown.

9 August 2020 future contracts for Gold tipped over the $1800 per ounce for the first time in over 8-years. Gold embodies specific characteristics that drive demand during times of uncertainty; acting as an inflation hedge and being uncorrelated to currency being the main two.

How did Factor Premiums Perform in June?

Factor Performance (%)						
As of 30/06/2020	1 Month	3 Months	YTD	I Year	3 Years	5 Years
MSCI ACWI Momentum	7.2	25.0	13.4	16.5	54.5	120.6
MSCI ACWI Growth	5.2	25.6	13.1	20.1	52.4	112.9
MSCI ACWI Small	3.3	25.3	-6.6	-2.7	9.7	52.4
MSCI ACWI (Benchmark)	2.9	18.8	2.0	7.0	30.1	82.0
MSCI ACWI Value	1.3	13.1	-11.9	-9.2	1.9	39.8

Source: Morningstar

In June we saw every factor premium producing positive returns. The first two weeks saw the Value factor performing well. In comparison, the third week rally in equities was led by Momentum stocks.

Momentum has been the best performing factor this month with a return of 7.2%.

Growth style stocks has a month of strong performance which was spearheaded by the Tech sector returning 7.3% in June.

Value returns were driven down by Values performance within the US, the MSCI USA Value index returning a lacklustre -0.73%.

Over the past two months Small-Cap returns diverged and outperformed the benchmark, this month has seen the two converging and holding similar returns for the month.