July 2020 Market Review

Global Equities Markets (%)						
As of 31/07/2020	1 Month	3 Months	YTD	I Year	3 Years	5 Years
MSCI Emerging Markets	2.6	13.3	-0.8	-0.6	9.3	60.2
MSCI Asia Pacific (ex-Japan)	2.0	12.1	3.2	3.1	14.8	69.1
S&P 500	-0.6	8.3	3.0	3.8	38.7	98.6
MSCI ACWI IMI	-1.0	9.1	-1.3	-1.0	20.9	67.3
MSCI Europe (ex-UK)	-1.6	11.3	-4.1	-3.4	5.8	38.0
FTSE All-Share	-3.6	1.3	-20.5	-17.8	-9.1	8.5

Source: Morningstar

Overall Market Backdrop, July

- The month saw modest to negative returns from Global Equities with Emerging Markets and Asia Pacific (ex-Japan) being the strongest performing regions for the second month running.
- Increasing Covid-19 cases and the resurgence of the US-China geopolitical tensions have driven US treasury yields down from highs of 0.7% to 0.52% in July.
- Momentum was the strongest performing factor for the second month running with a return of 2%.
- Gold spot price has reached an all-time high, hitting a price level of $1,970 per ounce.
- The EU have agreed on a historic £675 billion package to help with European recovery.

Drivers of Market Conditions in July

1. Global equity markets continued to face downward pressure from fears of an economic pullback while Covid-19 cases continue to accelerate. While the gradual easing of Covid-19 measures has taken place in many countries (lifting economic activity), this was offset by countries seeing confirmed cases increase which resulted in local lockdowns. The fear of local flare ups creating a second wave has hindered recovery. The surge of COVID-19 cases in many southern U.S. states is an example of this.

2. While local flare ups and fears of a second wave have hindered economic recovery, economic activity is starting to normalise across Europe and North Asia. If successful, local lockdowns have made it possible to suppress the virus while continuing economic activities.

3. Global Bond yields continued to fall throughout the month:

    a. The US Government yields fell sharply in the month of July falling to 0.53% from 0.70%. Fears of increasing Covid-19 cases and the revival of US-China geopolitical tensions have caused investors to target safe havens.

    b. The German 10-year Bond yields ended in negative territory at -0.52%. This was driven by a record fall in GDP.

    c. The 10-year UK Gilt yields also dropped to record lows, reaching 0.07% and inching closer to negative territory. The UK has seen a rise of Covid-19 cases and the fear of a second spike has resulted in the reinstatement of lockdown measures in certain areas.

4. The US might be experiencing policy exhaustion as the country heads towards a fiscal cliff with unemployment benefits and business support set to expire.

5 Gold has continued to rally since mid-March leading the spot price to surge to an all-time high of $1970 per ounce. Increasing uncertainty, volatility, uncertainty, inflation worries, and low bond yields have caused Investors to run towards the safe haven.

6 Oil prices have been rising steadily this month and reached the highest level since early March. WTI crude oil finished at $40 per barrel and Brent crude oil finished at $43 per barrel.

7 The EU have finalised a landmark £675 billion European recovery plan to help member economies from the impact of Covid-19. In addition, the EU's new recovery budget plan for 2021-2027 amounts to £1.62 trillion. The recovery fund will be backed by common bond issuance from the European Commission.

8 The UK has continued to commit to providing support for the harder hit industries; theatres, galleries, culture and concert venues will receive a rescue package of approximately £1.57 billion. This comes after these industries were told they had to remained closed, while giving no indication when they could potentially reopen.

9 While lockdowns and quarantine measures deeply impacted the Emerging Markets during the first wave, we are now seeing impacts diverge within Emerging Markets. Latin America have been more severely hit than Asia Pacific (ex-Japan).

How did Factor Premiums Perform in July?

Factor Performance (%)						
As of 31/07/2020	1 Month	3 Months	YTD	I Year	3 Years	5 Years
MSCI ACWI Momentum	2.0	17.3	15.7	13.2	54.6	120.1
MSCI ACWI Growth	1.1	14.9	14.4	15.6	51.9	109.9
MSCI ACWI Small	-1.7	10.5	-8.1	-8.3	6.9	50.6
MSCI ACWI (Benchmark)	-2.1	7.2	-0.2	-0.2	26.9	73.8
MSCI ACWI Value	-3.0	2.7	-14.5	-14.9	-2.2	34.6

Source: Morningstar

- Momentum was the strongest performing factor for the second month running with a return of 2%.
- Value saw a disappointing month, having the lowest return of -3%. Performance has been particularly poor for UK Value, the MSCI UK Value returned -6.8% for the month of July 2020.
- The performance of Value has also been impacted by the Energy sector, the sector has returned -7.3% for July and -35.3% YTD.