

OCTOBER MONTHLY COMMENTARY

31st October 2020

Risk assets ended October on the back foot, weighed down by news of renewed nationwide COVID-19 lockdowns across Europe and pre-US election jitters. Equity benchmarks in the developed world fell, led by weakness in Europe and the UK, however, emerging market stocks ended the month higher. US Treasuries and corporate bonds also came under pressure, whilst the Dollar index and Gold were largely unchanged.

The failure of targeted regional measures to curb COVID-19 infection rates led governments across continental Europe and in the UK to reintroduce national lockdowns as October came to a close. Although the stringency of restrictions fell short of those applied earlier in the crisis, they confirmed fears of a difficult winter ahead and the risk of a double-dip recession. Reassuringly, governments in Europe have extended programmes to support household incomes and protect the labour market. In the US, COVID-19 cases also accelerated, but as yet, the stringency of restrictions has not meaningfully increased. However, we could see levels of mobility drop as the public grows more cautious.

In the final days before US elections, hopes of a pre-election fiscal deal evaporated and investor attention turned to the risk of a delayed and contested election outcome. Joe Biden maintained a healthy lead in national polls and many of the key battleground states, but the race for Senate remains too close to call despite the increasing possibility of a blue wave. Control of congress would give Joe Biden a clearer path to fully implement his legislative priorities including significant fiscal stimulus, corporate tax increases and hikes in personal tax rates for high earners. Failure to flip the Senate would likely lead to smaller stimulus and no tax changes - an outcome that would provide less help for the real economy but would be benign for financial markets. Indications from early mail-in ballots suggests voter turnout will be very high.

The European Central Bank (ECB) meeting provided the most notable monetary policy news of the month, with President Christine Lagarde stating there was little doubt a new package of stimulus would be agreed in December. This is in reaction to a loss of recovery momentum and risks tilted to the downside. Consensus market expectations are for a EUR 500bn increase to the ECB's EUR 1.35tr bond buying programme. Minutes from the latest FOMC meeting provided little new information or direction on how policy will evolve to successfully achieve their new average inflation target.

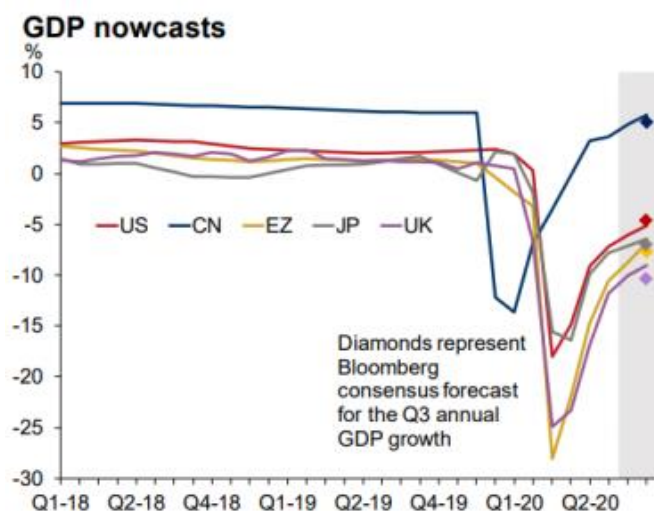
Economic data releases during the month demonstrated the divergence taking place in regional recoveries in part due to differing approaches and success in managing the health crisis. In China the recovery is almost complete, and it is expected to be the only major economy to record growth in 2020. In September, strong retail sales and import demand underlined the ongoing recovery in domestic demand.

In the US, although the improvement in data has slowed, there are few signs at present of a relapse in economic conditions. Unemployment fell to 7.9%, consumer and business sentiment

surveys were stable and retail sales in September positively surprised. Third quarter GDP growth was also better than expected, climbing at an annualised rate of 33.1% quarter on quarter.

By contrast, economic releases in the Eurozone and UK were more mixed, with notable weakness in the business survey data for the service sector. As COVID-19 restrictions are reintroduced, we should expect data across Europe to soften further.

Recovery divergence set to widen



Source: Oxford Economics

Over the month London & Capital strategies performed in line with market benchmarks, with equities falling back and credit spread widening marginally. Portfolio construction was unchanged, maintaining a balanced approach with our equity strategies diversified across sectors and regions. Fixed income allocations remain focused on key areas of economic infrastructure and recovery – global financials, utilities, major tech/telecom and major global corporates.

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