

SEPTEMBER MONTHLY COMMENTARY

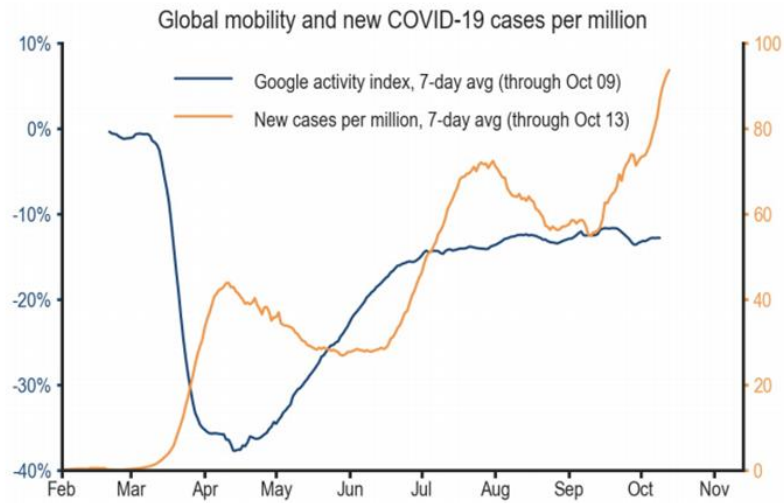
After five months of consecutive gains, the recovery in financial markets stalled in September. Initially profit taking in the technology sector led the market lower, but weakness spilled over across global risk markets as investors reflected on a list of growing concerns. The fiscal stimulus impasse in Washington, rising COVID-19 infection rates, loss of momentum in recent economic data and US elections all contributed to a more fragile market sentiment.

In the US, hopes of further fiscal stimulus before November's election started to fade. Republicans and Democrats made progress towards agreeing the potential size of a package but remained deeply divided on Democrat demands for financial aid to state and local governments. It now seems unlikely that an agreement can be reached this close to the election, as each party tries to ensure that they "own" any deal, and attention is moved to the Supreme Court confirmation hearings for Amy Coney Barrett. The renewal of fiscal stimulus in the US and across the developed world looks set to be a key driver of market sentiment in the coming months.

US Presidential election polls suggest Joe Biden still enjoys a healthy lead over President Trump, but only recently have betting markets reflected a similar Biden advantage (64% probability of victory), having previously suggested the race was neck and neck. In many respects the more market sensitive race is for the Senate, where it now looks possible that Democrats could secure a majority. Majorities in both the Senate and House of Representative would not only increase the likelihood of Joe Biden's plans for significant fiscal stimulus and infrastructure spending but increases to corporate and high earner personal taxes. Equity market volatility is expected to increase in the run up to election day but also remain elevated through to January, given the possibility of contested results and legal battles.

Global COVID-19 infection rates moved higher through the month, although fortunately not yet with the same corresponding fatality and hospitalisation rates seen in March and April. So far, there has been no increase in the stringency of government restrictions globally or decreases in measures tracking mobility, however as we move into the final quarter of 2020 this seems inevitable - starting in Europe. By comparison much of Asia, particularly China, continue to be far more successful at lifting restrictions and containing infection rates.

GLOBAL MOBILITY AND NEW COVID-19 CASES PER MILLION



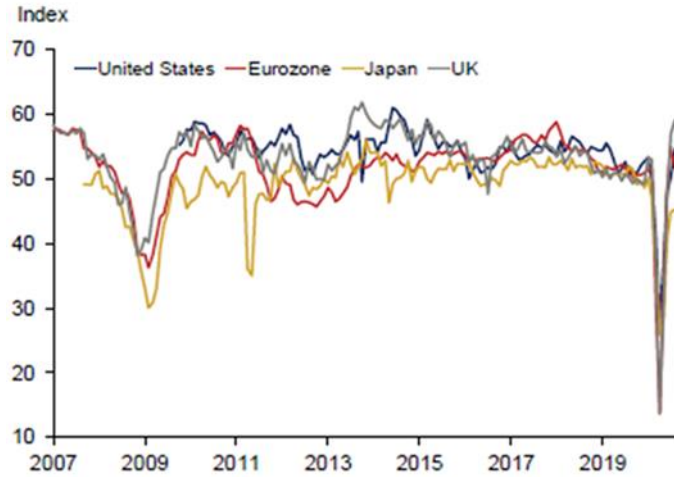
Source: Google, Our World in Data, J.P. Morgan

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The positive surprise seen in recent months' economic data releases shows signs of fading and there is growing evidence of a gear change in the pace of economic recovery. US retail sales moved up 0.8% in August, versus a 3.7% month on month improvement in July. The slowing rebound is at least partially due to the expiry of enhanced unemployment benefits at the end of July, which had previously been supporting household incomes. The rate of improvement in the US Labour market has also slowed, with only 700k jobs added in September versus the 1.4m added in August. Although unemployment has fallen to 7.3%, an increasing proportion of these are classified as permanent lay-offs rather than temporary, and the fall in unemployment is exaggerated by the 4.4m people who stopped looking for work. The drop in business survey indices for September suggests a loss of economic momentum across developed markets.

There were no significant changes in monetary policy during the month, but central bank communications committing to an ultra-loose policy for the foreseeable future helped to partially offset investor fundamental concerns. A -0.4% fall in year on year inflation in Germany, led some European Central Bank (ECB) officials to suggest the ECB follow the US Federal Reserve's example and adjust its inflation target to allow for periods of inflation above 2%.

GLOBAL PURCHASING MANAGER INDICES



Source: Oxford Economics

With business confidence rebounding throughout August, as economies were gradually unlocked, we have seen growing caution once more with September PMI data pointing to slowing growth in business activity. Against a backdrop of risk aversion for much of the month, our core STAR equity strategy showed more resilience relative to market benchmarks, benefiting from the balance across industries and sectors. In the current environment, additions to the equity portfolio will be highly selective and avoid excessive valuations. Although credit markets were more stable, spreads widened marginally across the board with higher beta fixed income seeing the most pressure. The focus of our fixed income strategies remains unchanged, allocating to sectors that are key to the economic infrastructure and recovery – global financials, utilities, major tech/telecom and major global corporates.

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