Marlborough Group

July 2020

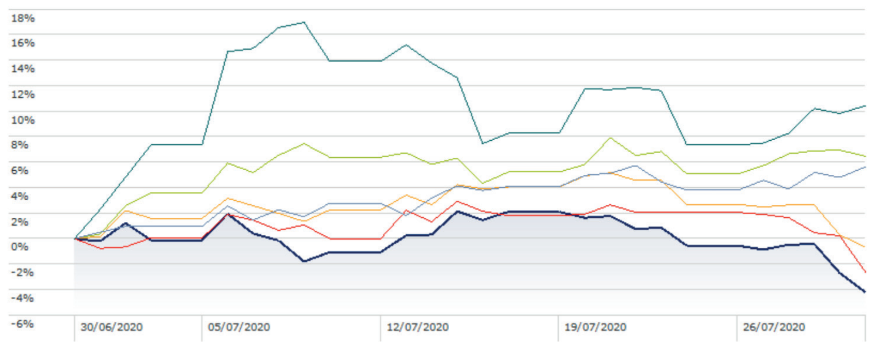
Global Investment Commentary

SUMMARY

July provided further evidence that economic activity has improved since lockdowns have started to lift, but other data pointed to a pause in the recovery, particularly in the US. The pace of increase in new infections also rose in most regions from the start of July but appeared to slow towards the end of the month in the US, while rising, from much lower levels, in Europe and Japan. Hopes for a vaccine were boosted by positive early-stage trial results.

Over the month, the MSCI Emerging Markets equity index rose by 9.03% and MSCI Developed Markets by 4.82%. Corporate bonds also rallied, while government bonds held on to their gains for the year and gold rose by 11.13%.

Performance - Major Indices



Investment Name	Value	Investment Name	Value
FTSE 100 TR GBP	-4.2%	S&P 500 TR USD	5.64%
Nikkei 225 Average TR JPY	-2.6%	MSCI Europe Ex UK GR EUR	-0.65%
MSCI AC Asia Pac Ex JPN PR	6.49%	SSE 50 A Share TR CNY	10.44%

Source: FE, July 2020

Market Round Up

Major central banks took something of a back seat during the month, having already flooded the market with liquidity and taken rates close to zero. However, governments have been under pressure to provide further fiscal support. In the US, Congress debated the extent to which unemployment benefits should be extended and whether further stimulus cheques should be provided, with a deal proving difficult to accomplish.

Performance of major equity markets during July 2020:

UK (FTSE 100)	-4.20%
US (S&P 500)	+5.64%
Europe (MSCI Europe Ex UK)	-0.65%
Asia (MSCI Asia Pac Ex Japan)	+6.49%
Japan (Nikkei 225)	-2.60%
China (SSE 50)	+10.44%

US

Daily new infections in the US began to rise again from mid-June, and that trend continued throughout most of July. As a result, many states have now begun to partly reverse or pause their reopening plans.

US GDP for the second quarter fell by an annualised rate of 32.9% compared with the previous quarter. While this confirms the largest decline in GDP since the Second World War, investors have been more focused on the recovery in some of the economic data since April. US retail sales have rebounded since their low in April and are just slightly below their most recent peak.

The US is well into second quarter earnings season and with over half of companies having reported, earnings have come in a little stronger than expected. This resulted in the S&P 500 rallying by 5.6% over the month.

Europe

Europe looked to have managed the virus better than many other regions in the second quarter, though there are some concerns about rising cases more recently. Activity has been rising across the region, particularly in Germany, given new infections had remained low for some time. However, a recent outbreak in

Spain, coming just before the peak of the summer tourist season, has cast doubt over the potential for a swift economic recovery. The risk of an increase in cases as economies reopen is leading to a potentially more stop-start and geographically differentiated recovery, though an effective vaccine would clearly be a strong catalyst for a more sustained economic rebound.

Second-quarter GDP fell by 12.1% compared with the previous quarter - the largest quarterly decline in the Eurozone's history.

The European Union (EU) agreed a EUR 750 billion recovery fund in response to COVID-19. Importantly, the recovery fund will be backed by common bond issuance by the European Commission. This is a significant step toward potential fiscal integration across the EU.

UK

Daily new cases of COVID-19 in the UK had been falling, but again concerns around a small increase in cases have surfaced at the same time as the government has lifted many activity restrictions. A summer economic plan put forward by the Chancellor aims to introduce measures to get the economy back on its feet by reducing stamp duty, cutting VAT for the food and hospitality sectors and offering companies GBP 1000 for each furloughed staff member they bring back to work and retain until the end of January. At the same time the Chancellor is rolling back the furlough scheme, and some of the protected jobs could now be at risk if activity does not recover before the programme is wound down.

UK assets have been somewhat out of favour compared with other regions over the past month. The FTSE 100 fell by 4.20% in July.

Emerging Markets & Asia

The increase in new cases in Brazil and India continued throughout July. Recent outbreaks in Hong Kong have also seen the reintroduction of restrictions, which will limit the number of people in group gatherings to just two, while mask-wearing is mandatory.

In China, GDP for the second quarter grew by 3.2% year on year. Travel app data shows that mobility in China and South Korea has recovered well without a significant rise in cases. Both countries appear to show, at least so far, that a recovery is possible without a vaccine if the virus can be brought under control with other measures. Chinese equities (SSE 50 A share index) were up 10.44% over the month.

Conclusion

The policy response to COVID-19 from central banks and governments has been swift and sizeable and helped lift markets generally. However, a full economic recovery is only likely to happen if rising activity does not also lead to rising infections. Governments may have to continue supporting consumer incomes and businesses until a vaccine is available or until the virus is brought under control by other means. The extent to which they do so will be key to the outlook from here. It appears progress is being made towards a potential vaccine, but it is too early to sound the all-clear just yet.

Given the high level of uncertainty around the outlook for the virus and a vaccine, we believe that a continuing focused approach on quality holdings is likely to deliver investment objectives across the range of portfolios.

Alternatives may continue to help diversify portfolios given the reduced diversification that government bonds are likely to provide at current yields. With the uncertain outlook dictated by the virus, but also given the potential for a vaccine, we continue to believe it makes sense to aim for a neutral, balanced asset allocation.

Economic Projections (31/07/2020)

Economic Growth

Country/Region	Real GDP YOY Growth (%)		
	2020	2021	2022
UK	-9.00	6.00	2.60
USA	-5.50	3.90	2.90
Eurozone	-8.20	5.50	2.20
Germany	-6.10	5.00	1.90
France	-10.00	6.80	2.80
Japan	-4.90	2.50	1.10
China	2.00	7.90	5.50
India	DATA UNAVAILABLE	-5.20	7.30
Asia	-0.40	4.80	4.60
Emerging Markets	-0.90	4.90	4.80

Source: Bloomberg

Interest Rates

Country/Region	Central Bank Interest Rates (%)		
	2020	2021	2022
UK	0.05	0.15	0.55
USA	0.25	0.35	0.55
Eurozone	0.00	0.00	0.00
Japan	-0.10	-0.10	0.00
China	4.30	4.30	4.15
India	3.65	3.70	4.25

Source: Bloomberg

Foreign Currency Exchange Rates

Currency Pair	Exchange Rate		
	2020	2021	2022
GBP/USD	1.28	1.32	1.35
EUR/GBP	0.91	0.89	0.89
EUR/USD	1.16	1.19	1.20
USD/JPY	107.00	107.50	107.00
EUR/JPY	124.00	127.50	131.00
USD/CNY	7.00	6.88	6.55
USD/INR	74.90	73.55	75.00

Source: Bloomberg

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