



## MAY 2020 REVIEW

### 12TH MAY 2020

After the severe falls across risk assets in March, markets rebounded strongly in April. COVID-19 continued to spread across the world, and revenues generated by businesses across large swathes of the economy plummeted to zero as governments enforced lockdown measures. Yet, investors took comfort in the plateauing in new COVID-19 cases and the very significant stimulus measures introduced to reduce the damage caused by the economic shutdown. Volatility, as measured by the VIX index, has halved from the highs reached in mid-March.

The best returns were delivered by our US, Pacific and Emerging Markets equity index trackers, all returning around 10% in sterling terms, while our UK equity tracker rose around 8%.

Fixed income assets meanwhile also generated good returns, with investment grade (+4.5%) and high yield bonds (+3.7%) both outperforming UK sovereign debt (2.5%).

While the positive returns from risk assets are encouraging, there remains considerable uncertainty about the future. Without the government support, default rates would have

been significantly higher from businesses with high fixed costs, plummeting revenues and significant debt.

Economic data is already starting to show the extent of the slowdown and confirms the expected, that the economy is in recession. The US economy contracted at an annualized pace of 4.8% in the first quarter of the year and the number of jobless claims in the country increased by a staggering 30 million in the last six weeks of Q1. The April Flash composite Purchasing Managers' Index (PMI) plunged to 27.4 (below the level seen in the global financial crisis) and retail sales also fell 8.4% in March.

Our portfolios have performed extremely well in the downturn and the moves to add equity and credit risk in mid-March and again in April both look well-timed.

As we move towards a gradual reopening of economies, we have been closely observing developments in China to see how various sectors of the economy are normalizing. While the recovery is still in the early stages, sales in China's online retail channels (which account for



## MARKET COMMENTARY



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30% of total sales) are back in positive territory year-on-year, while traffic to shopping malls sits at 70% of normal levels (even though malls are now fully open). Meanwhile, restaurants have 50-80% of their customer base back.

The reopening of economies has prompted concerns about a second wave of infections and potential double dip in the economy. However, we believe the willingness of governments to support economies and, in particular, credit markets is giving us some confidence that the outlook for markets remains reasonable.

### IMPORTANT INFORMATION

As with any investment, your capital is at risk. The value of an investment, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest. Past performance is not a reliable indicator of future results. Personal opinions may change and should not be seen as advice or a recommendation. We recommend investors seek professional advice before deciding to invest.

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