MARKET COMMENTARY

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Investment Management

SEPTEMBER 2020 REVIEW

30TH SEPTEMBER 2020

After a summer of buoyant equity and fixed income markets, the investment tone was more subdued in September, with both the FTSE and S&P 500 recording losses in the month.

Drivers of investor sentiment in the month included rising COVID-19 cases, lack of progress in the Brexit negotiations, the race for control for the White House in the US and a healthy dose of profit taking from hot sectors, such as US technology.

While UK and US equities recorded losses, Asian stocks delivered positive returns. Japan's TOPIX index rose 5.4% in sterling terms in September, while broader Asian equities outside of Japan rose 2.0%. The FTSE All Share fell 1.7% and there was noteworthy sector dispersion, with Banks (-9.0%) and Energy (-13.2%) stocks faring poorly. By contrast, the more defensive Consumer Goods (3.9%) and Utilities (1.9%) sectors in the UK performed well.

There was also a meaningful move lower in sterling in September (down nearly 4% against the US dollar). Brexit was clearly a factor here, with EU/UK negotiations being complicated by the UK seeking to modify the terms of trade between UK and Northern Ireland. A 'No Deal' is now a 40% possibility, according to economics research firm Capital Economics.

On a more positive note, vaccine trials have been progressing; positive news in the coming months could be a game changer for markets and given the record low interest rates and fiscal stimuli from DM governments, a 'melt-up' in equities is a very real possibility in 2021.

Fixed income market returns reflected the risk-off tone in September. Gilts and US Treasuries both rallied in the month. UK corporate bonds also delivered a positive return in the month, although high yield debt – which has a lower credit rating than investment grade debt – fell marginally.