Alan Boswell Financial Planners

Market Update - September 2020

ALAN BOSWELL
Financial Planners

Global equities (as measured by the MSCI All Country World Index) gained 44% from their low on 23 March. Much of the rally was supported by the US market and in particular by 5 stocks growth stocks; Facebook, Apple, Amazon, Microsoft and Google (FAAMG). Their group performance was supercharged by COVID-19 as video conferencing (e.g. Microsoft's Teams), social media and ecommerce use boomed while people worked from home. This was combined with a significant increase in value of a large number of on line retailers stocks. The market capitalisation of the FAAMGs has risen by over $1.8tn so far this year, after rising $3.1tn during 2014-19. Moreover, given that Facebook and Google already account for a third of global advertising spending, a key driver of their profitability, it may become more difficult to squeeze out further market share gains to boost future earnings.

Global equity performance varied across base currencies by more than usual in July — ending slightly down in UK sterling, flat in euro, and much higher in US dollars. The remarkable dispersion was a result of the US dollar's spot price dropping by more than 4% versus a basket of major currencies during the period, marking its largest one-month decline since September 2010.

Emerging-market shares, led by China and Latin America outperformed those of developed markets for July, and US equities outpaced other major developed markets. The gold futures price gained more than 10% and rose to an all-time high in US dollars during the month. Meanwhile, the West Texas Intermediate oil futures price increased by $1.00 during July, to end the period at $40.27.

Government-bond rates generally declined across maturities in the UK, eurozone and US during July. UK gilt rates declined most dramatically in the intermediate-to-long-term segment of the yield curve; in the eurozone and US, government-bond rates dropped the most in the longest maturities.

The wide-ranging labour-market support that the UK's Job Retention Scheme has provided was set to begin receding at the end of July. Effective August, companies are required to begin paying the national insurance and pension contributions for their furloughed workers; companies must also pay 10% of their wages starting in September, and then 20% by October. This expanding burden-sharing raises the possibility that employers will need to permanently lay off workers, so we await further uncertainty with unemployment figures.

Her Majesty's Treasury (HM Treasury) announced a patchwork of programmes during July targeted at supporting dining and tourism in the UK. Restaurants and pubs, which opened their doors in July for the first time in several months, are expected to benefit from reduced taxes on food and non-alcoholic drink sales (from 20% to 5%); the tax cut also applies to tourist attractions and travel accommodations. Additionally, a 50% dining discount (up to £10 per diner) ran through the month of August. HM Treasury also unveiled a work placement programme for young adults; it also suspended taxes on some home purchases.

The EU struck a landmark accord to help fund an economic recovery from COVID-19-induced containment measures. The agreement's €1.8 trillion price tag includes a €750 billion recovery plan (with more than half the figure intended as grants and the balance as loans), as well as funding for EU budgets through 2027. In a first, EU members agreed to partially fund the deal by issuing common EU debt, thereby tightening the fiscal union between member countries.

Tension between the US and China intensified throughout July. In a break from previous US policy that said maritime disputes must be resolved peacefully through UN-backed arbitration, the Trump administration formally denounced China's territorial claims in the South China Sea as illegitimate.

All of the above events could well lead to further market volatility, the length of which remains uncertain as the longevity of the COVID-19 threat remains unknown.

Please note the following:

All investments involve different degrees of risk. Please remember that past performance is not a guide to future performance. The value of units and shares and the income from them can go down as well as up and investors might not get back the amount originally invested. Exchange rates may cause the value of overseas investments to rise or fall.

Where we have expressed views and opinions, these may change over time. None of the information mentioned in this document represents a specific portfolio or holding nor constitutes a recommendation to buy or sell.

Alan Boswell Financial Planners
Cedar House, 105 Carrow Road,
Norwich, NR1 1HP

T 01603 967967