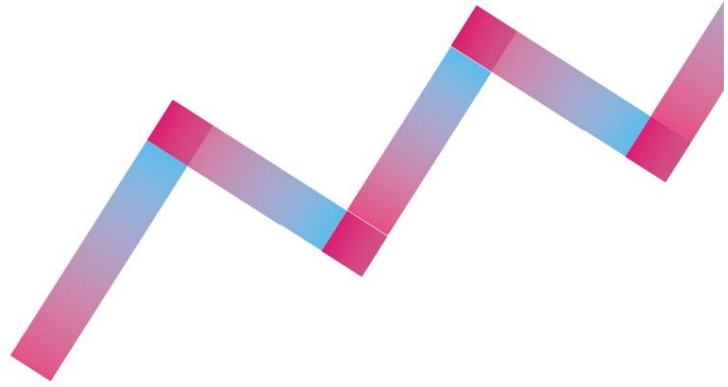


Flash stats

Q3 2020

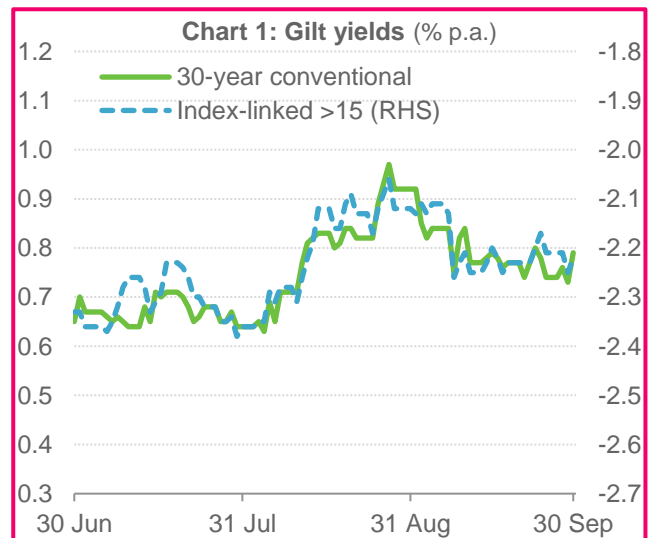


Daniel Kowalewicz

Despite a return of volatility in September, equity markets rose and credit spreads fell in Q3 as economic and earnings data outperformed, albeit downbeat, expectations. Government bond yields rose slightly but gold prices once again moved higher over the quarter.

Sterling returns (%) to 30 September 2020				3 mths	12 mths	3 mths	12 mths		
EQUITY INDICES						STERLING BOND INDICES			
Global	<i>FTSE All-World</i>			3.4	5.7	Gilts (All)	<i>FTSE</i>	-1.2	3.4
UK	<i>FTSE 100</i>			-4.0	-18.1	Index-linked (All)	<i>FTSE</i>	-2.2	0.4
	<i>FTSE All-Share</i>			-2.9	-16.6	Corporates (All)	<i>iBoxx</i>	1.5	4.3
US	<i>S&P 500</i>			4.1	9.8	MODEL PORTFOLIOS			
Japan	<i>TOPIX</i>			2.8	2.4	70% equity		0.6	-1.4
Europe ex UK	<i>FTSE Dev Europe</i>			1.6	0.7	50% equity		0.6	0.1
Emerging	<i>FTSE Emerging</i>			4.5	4.6	30% equity		0.5	1.7

- GDP data will likely reveal record-breaking growth rates for many economies in Q3, following Q2's record-breaking declines. However, while high frequency data, such as travel and navigation app usage, point to a continued recovery in activity in the major advanced economies, they suggest the pace of improvement slowed markedly towards the end of Q3. Furthermore, consensus forecasts suggest it may be several years before most major advanced economies regain pre-pandemic levels of output.
- Composite Purchasing Managers' Indices, which combine manufacturing and services, signalled that the recovery in global activity continued in September. Regional indices generally remained at levels consistent with month-on-month expansion, though did point to more moderate expansion in some regions.



- After having risen to 1.0% in July, headline UK CPI inflation fell to 0.2% in August, its lowest level since December 2015.
- The Fed’s shift to “flexible” average inflation targeting likely means interest rate rises are even further away than previously envisaged. The Bank of England continues to send mixed messages on the potential use of negative interest rates, but an operational review is ongoing and market pricing, at least, suggests negative interest rates could be introduced in 2021.
- US 10-year treasury yields were little changed, ending the quarter at 0.68% p.a. Equivalent UK yields rose 0.06% p.a. to 0.23% p.a. while German bund yields drifted 0.07% p.a. lower to -0.52% p.a. Equivalent Index-linked gilt yields edged below end-June levels resulting in a rise in 10-year implied inflation to 3.3% p.a.
- Despite rising towards the end of the quarter, global investment-grade credit spreads fell from 1.6% p.a. to 1.4% p.a. and global speculative-grade spreads fell from 6.4% p.a. to 5.6% p.a. Defaults continued to rise but have so far mostly been contained in the troubled US energy and retail sectors. Expectations for peak default rates eased over the quarter as supportive market conditions have allowed companies to raise new finance, bolstering their ability to navigate the downturn.
- Sterling partially reversed some of its losses in the first half of 2020, rising 1.7% in trade-weighted terms since the end of June, though weakness returned as trade talks faltered in September. Even allowing for September’s gains, the US dollar fell 2.8% in trade-weighted terms in Q3.
- Despite a return of volatility in September, global equity indices produced a total return of 7%. Even though US tech stocks were at the heart of recent declines, the US region once again out-performed and the UK was again a stand-out underperformer. Emerging markets also outperformed, helped by a strong rally in Chinese equities early on in the quarter.
- With regards to the sectoral pattern of performance: with the exception of oil & gas and financials, cyclical stocks generally outperformed more defensive stocks. Technology once again outperformed, extending its large year-to-date lead at the top of the performance rankings while oil & gas massively underperformed, cementing its place at the bottom.
- The rolling 12-month performance of the MSCI UK Monthly Property Index continues to fall and is now -2.9% to the end of August. Capital values are, in aggregate, 7.9% lower over the same period This is predominantly due to a 18.9% fall in capital values in the retail sector over the last year, but values in the office and industrial sectors have also fallen.

