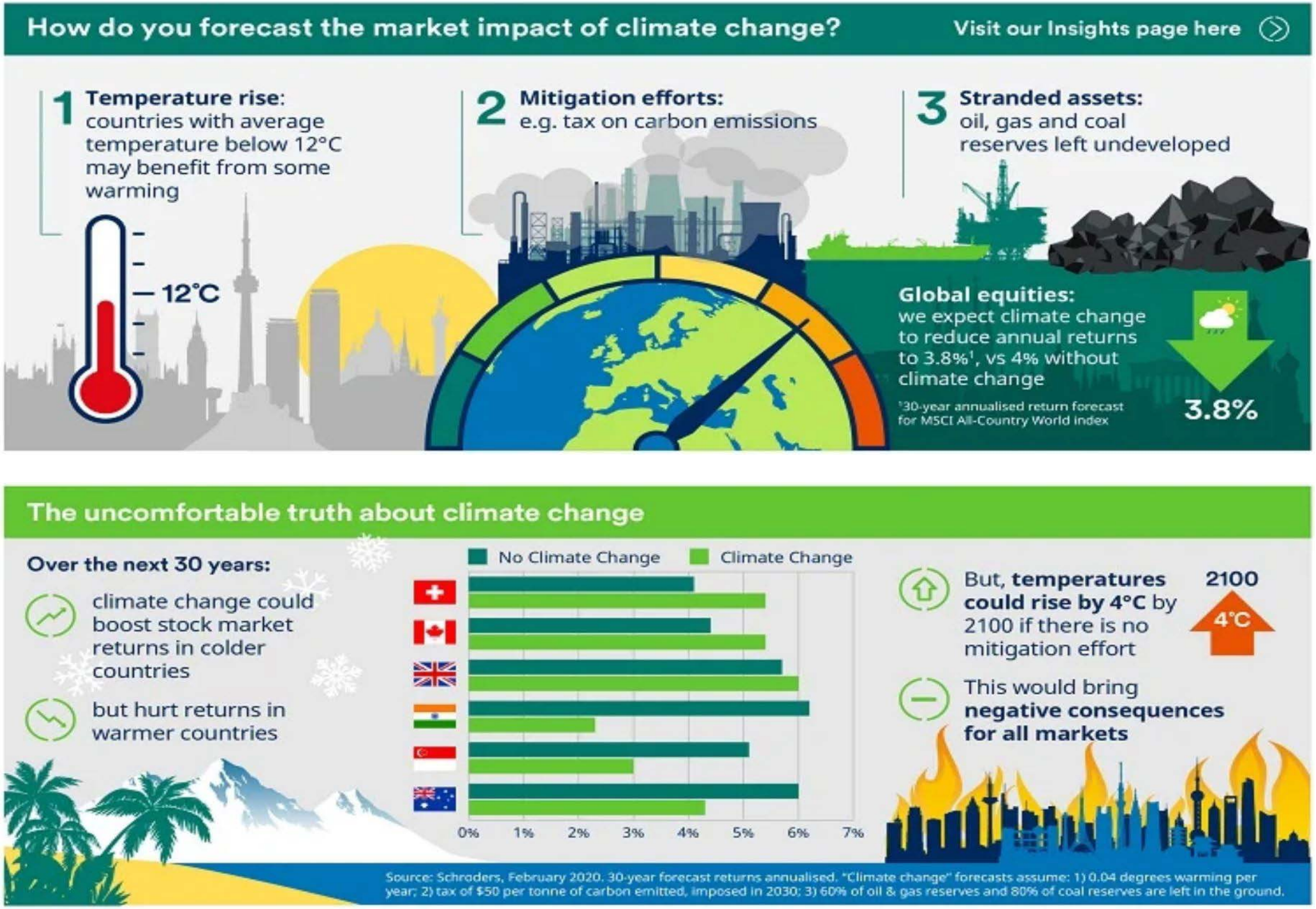
FINURA

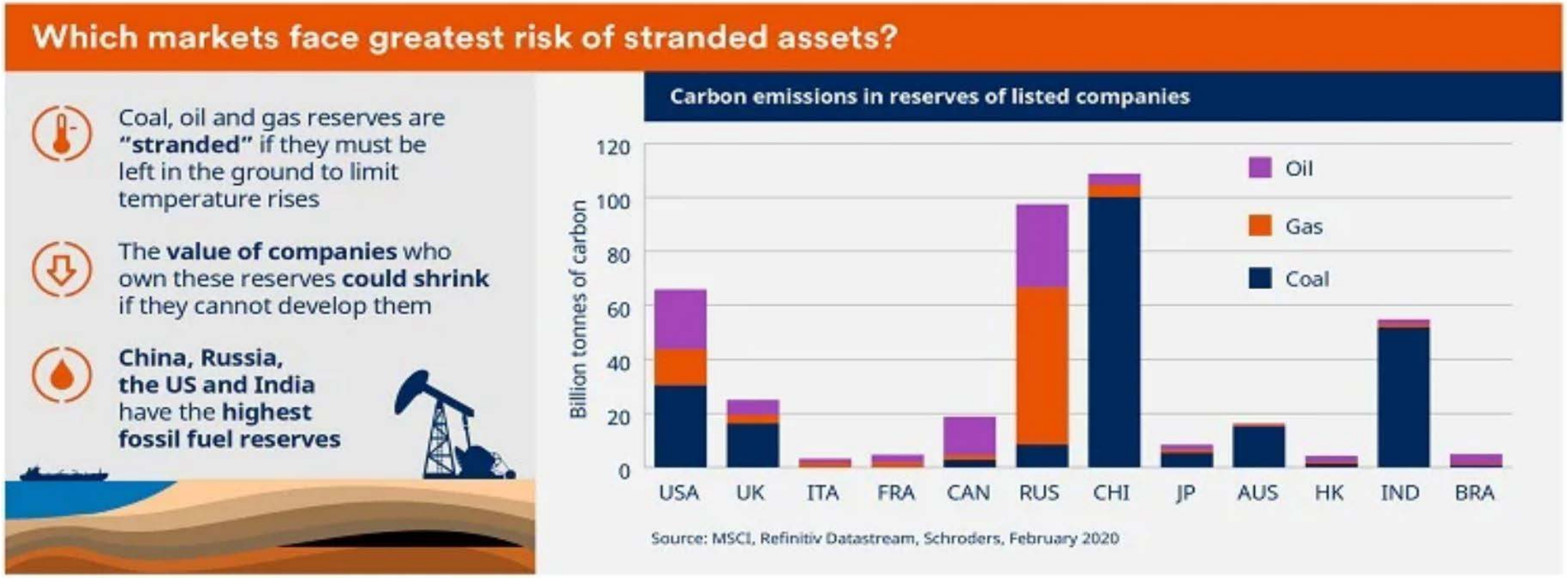
MARKET COMMENTARY AUGUST 2020

Chartered Financial Planners

Pension TRANSFER Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY





Source: [Schroders as at August 2020.]

MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

Positive · Positive/Neutral · Neutral · Neutral/Negative · Negative

	Category	View	Comments
Main Asset Classes	Equities	Neutral	We maintain our neutral view as the fundamental outlook is still weak. However, support from central banks continues to be beneficial. The two-tier market in equities will likely persist. This means we foresee that "growth/quality" stocks will likely continue to outperform those stocks classified as "value".
	Government Bonds	Neutral	We believe that the potential returns are limited. However, they can still serve a purpose as a counterbalance to exposure to riskier assets.
	Commodities	Positive/Neutral	We continue to be positive on commodities and expect moderately positive returns as global economic activity returns to normal.
	Credit	Positive/Neutral	We remain positive on credit (corporate bonds). Central bank support and investor demand will continue to support credit markets.
Equities	US	Positive/Neutral ▲	We expect US stocks will continue to outperform due to central bank support and a decline in the number of Covid-19 cases.
	UK	Neutral/Negative	We remain negative as Brexit is still unresolved and economic activity has been hit by the lockdown.
	Europe	Neutral ▼	The strong euro and expensive valuations continue to weigh on returns. The region also lacks a catalyst to spur prices higher following the EU's €750 billion Recovery Fund agreement.
	Japan	Neutral	We remain neutral. Japan is suffering from a second wave of Covid-19 which we expect will suppress gains.
	Pacific ex-Japan	Neutral	Although the region has been supported by fiscal and monetary policy, concerns remain about a second or third wave of Covid-19 in Australia and Hong Kong.
	Emerging Markets	Positive/Neutral ▲	We have upgraded to positive. The weaker US dollar is helping to create more beneficial monetary conditions in emerging markets. Cheaper valuations also supports EM equities.
Government Bonds	US	Neutral/Negative	We maintain our negative view as the 30-year bond is vulnerable to an increase in inflation expectations.
	UK	Negative	Yields and fiscal dynamics remain unattractive.
	Germany	Negative	We maintain a negative view due to unattractive yields and fiscal dynamics.
	Japan	Neutral/Negative	Our view remains unchanged as the economy is still affected by the pandemic despite support measures.
	US Inflation Linked	Positive/Neutral ▲	Inflation expectations are returning to normal as the US economy continues to reopen.
	Emerging Markets Local	Positive/Neutral	We maintain our positive stance to benefit from looser monetary policy in the emerging world as well as taking advantage of cheap valuations in emerging currencies.

	Category	View	Comments
Investment Grade Credit	US	● ▼	Valuations and economic fundamentals are less attractive despite continued central bank support.
	Europe	● ▲	While valuations have deteriorated, we remain positive as economic data improves and the European Central Bank continues to provide support.
	Emerging Markets USD	● ▲	Our view remains positive as the asset class benefits from the weaker US dollar. We continue to favour higher quality corporate credit based on more attractive valuations.
High Yield Bonds (Non-IG)	US	● ▲	Fiscal and monetary stimulus continue to support the market. However, US high yield (HY) is less attractive on a valuation basis than European HY.
	Europe	●	The market continues to be supported by stimulus programmes in the region and there is potential for further falls in yields relative to government bonds (prices rise and yields fall).
Commodities	Energy	●	We remain positive as demand for energy is now exceeding supply as economies around the world start to reopen after lockdowns ease.
	Gold	●	Although US dollar weakness may have added volatility to the market, gold is still a beneficiary of central bank support measures.
	Industrial Metals	●	Demand outside of China could increase with recovery funding in Europe and potential infrastructural spending plan in the US.
	Agriculture	●	We expect prices, currently hovering at all-time lows, to start to recover as lockdowns ease and economic activity returns to more normal levels.
Currencies	US $	● ▲	We expect the US dollar to remain weak as the central bank remains committed to an extremely loose monetary policy to stimulate the economy.
	UK £	●	The economic impact of Covid-19 together with the risk of Brexit will continue to weigh on performance.
	EU €	●	We expect to see further growth following monetary and fiscal support measures by the European Central Bank to boost economic recovery in the eurozone.
	JAP ¥	●	The stimulus packages announced by the Bank of Japan continue to support the currency.
	Swiss F	●	We remain neutral on the Swiss franc given its high valuation, whilst acknowledging its continued role as a perceived "safe haven" currency.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Source: Schroders, August 2020. The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

MARKETS REVIEW

A look back at markets in August when hopes of a Covid-19 vaccine and a shift in Federal Reserve policy helped to support shares.

HIGHLIGHTS

- Shares were broadly higher in August amid hopes for a Covid-19 vaccine, signs of continued economic recovery and ongoing policy support measures. Government bond yields rose (meaning prices fell)
- US equities – as represented by the S&P 500 – reached a new peak. The Federal Reserve confirmed its readiness to offer further support, while increasing its flexibility to do so by adjusting how it targets inflation
- Eurozone shares rose. Top performing sectors included economically-sensitive areas like industrials and consumer discretionary. There were concerns about rising Covid-19 infections in some countries, notably Spain
- UK shares also gained. Signs there could be a solid recovery in the domestic economy during Q3 2020 helped UK small and mid cap equities play a supportive role for the market over August
- Japanese shares gained too. Late in the month, Shinzo Abe announced his resignation as prime minister, citing a long-standing health problem
- Emerging market (EM) equities recorded a positive return as hopes for a Covid-19 vaccine increased, and on the Federal Reserve's suggestions that US interest rates could remain low for longer
- In fixed income, government bond yields rose (meaning bond prices fell) and the US dollar continued to decline. Corporate and emerging market bonds performed well
- In commodities, precious metal prices rose with US dollar weakness providing a strong tailwind.

THE US

US equities – as represented by the S&P 500 – reached a new peak in August, in spite of tensions between the US and China escalating. What began as the two nations exchanging trade blows has now developed into restrictions on diplomats and military posturing. However, the ongoing stand-off was overshadowed through the month by economic data, which, while patchy, suggests that the economic recovery continues.

The Federal Reserve (Fed) also confirmed its readiness to offer further support, while increasing its flexibility to deliver it by adjusting its measurement of inflation. Although the Fed anticipates inflation to remain "soft", it is also adopting "average inflation targeting" to allow temporary tolerance of increases beyond the 2% target.

Year on year inflation (core CPI) rose to 1.6% (in July) from a trough of 1.2%, driven by a continued reversal of gasoline prices – which rose by 5% in July – as well as higher prices for apparel, used cars and airfares. In the meantime, the number of Americans applying for unemployment benefits fell below 1 million for the first time since the pandemic began in March. However, retail sales in July increased by less than expected and consumer confidence remains subdued.

The IT sector was again a notable contributor to the market's overall gains in August. Sectors exposed to an improving economic cycle, such as industrials and consumer discretionary, also rose. Utilities and real estate were weaker areas, as were energy stocks.

EUROZONE

Eurozone equities notched up gains in August but lagged behind other regions. Top performing sectors included economically-sensitive areas of the market like industrials and consumer discretionary. The healthcare sector was among the laggards, after a strong performance so far this year, as investors favoured parts of the market deemed more likely to benefit from economic recovery. Within individual industries, automakers were buoyed by data showing rising car sales in China. The Q2 earnings season concluded and was overall better than expected. The euro strengthened further against the US dollar.

Data confirmed that the eurozone economy contracted by -10.1% in Q2. However, the German economy's fall was revised to a smaller decline of -9.7% from -10.1% previously. There was continuing unease about rising Covid-19 infections in some countries, notably Spain and France, with various countries imposing some form of travel restrictions. Meanwhile, Germany extended its scheme to top up the pay of workers affected by the pandemic; this was due to expire in March 2021 but will now run until the end of next year.

Recovery momentum slowed, according to the latest purchasing managers' indices (PMIs). The composite index for August reached 51.6 compared to 54.9 in July. (50 is the level that separates expansion from contraction. The PMI surveys are based on responses from companies in the manufacturing and services sectors).

UK

UK equities rose over the period as risk appetite recovered generally due to the improving global growth outlook. Signs there could be a solid recovery in the UK economy over Q3 2020 were also supportive of small and mid cap (SMID) equities. As a result, the market recouped some of its losses from July when fears around a second wave of Covid-19 infections had dominated sentiment.

The market was led higher by economically-sensitive areas, including some of the sectors where activity had been hit hardest during the pandemic. Corporate news in many of these sectors improved and began to reflect the more encouraging macroeconomic data seen over the summer. These trends contributed to the outperformance of domestically-focused equities and UK SMIDs at a time when sterling strength against a weak dollar weighed on internationally-exposed large caps.

The summer rebound in UK economic activity, helped by fiscal policy support and a relatively milder resurgence in new Covid-19 cases versus some other territories, could set the UK up for a solid recovery over Q3. A potential pick-up in job losses remains the big unknown. While the latest data from the Office for National Statistics confirmed that the UK economy had entered a recession in Q2, the market focused on news that monthly GDP had grown by 8.7% in June 2020, supporting hopes for a reasonably sharp Q3 rebound.

JAPAN

In August, the Japanese equity market quickly regained the ground lost at the end of July, then traded sideways for the rest of the month to end 8.2% higher. Speculation over the potential resignation of Prime Minister Abe arose during market hours on Friday 28 August, and caused a small dip in share prices. His resignation was confirmed later that day and, by the end of trading on Monday 31 August, the market was basically unchanged across the two days. The yen did strengthen on the announcement but, for the month as a whole, there was a small net weakening against most major currencies.

Shinzo Abe's resignation, due to the resurgence of a long-standing health problem, came just four days after he recorded the longest continuous term of any Japanese prime minister. His

popularity has declined recently, primarily due to his handling of Japan's response to the pandemic. In recent weeks, an uptick in new infections cases, albeit from a very low base, has led to further criticism of perceived policy inconsistencies. The LDP has now opted for the simplest method by which their next party president can be elected, and this is likely to take place on 14 September. Yoshihide Suga, currently Chief Cabinet Secretary, has emerged as the front-runner in early September.

Away from politics, although corporate profits are clearly under pressure, the recent quarterly earnings season brought more positive surprises than might have been expected. The pandemic has made it very hard to form a clear consensus for earnings, with many companies unwilling to provide their usual guidance due to the extreme uncertainty. However, on our estimates, around 40% of companies beat market expectations, with 40% in line and 20% underperforming. This compares to a more typical split of roughly one third in each category. Economic data released in the last few weeks has also been slightly skewed to positive surprises, especially in industrial production which saw a larger rebound than expected.

ASIA (EX JAPAN)

The MSCI Asia ex Japan index posted a strong return, aided by hopes for a Covid-19 vaccine and ongoing economic recovery, as well as US dollar weakness. The index was led higher by strong performances from China and Hong Kong SAR, where Covid-19 infection rates fell and most sectors advanced. In China, upside surprises in Q2 earnings results boosted sentiment, and exports expanded strongly, though there were rising tensions with the US. Although China's commitment to Phase I of the US-China trade deal was a positive, other tensions included sanctions on technology giant Huawei by the US.

Meanwhile, China and India had their own border skirmishes near month end, leading India to give back some of its strong performance generated earlier in the month. Nevertheless, India performed broadly in line with the index, despite the continued rise in Covid-19 cases.

Conversely, Malaysia, Thailand and Taiwan finished in negative territory and were the weakest index performers. Taiwanese equities fell amid weakness among IT stocks. Apple supply chain stocks in particular were negatively impacted by the US-China tensions.

EMERGING MARKETS

Emerging market (EM) equities recorded a positive return as hopes for a Covid-19 vaccine increased, and as the Fed's new monetary policy strategy suggested that interest rates could remain low for longer. The MSCI Emerging Markets Index increased in value but underperformed the MSCI World Index

Egypt was the best-performing market in the MSCI Emerging Markets Index. China outperformed as stronger-than-expected Q2 earnings results, notably in the e-commerce sector, boosted sentiment. This was despite an escalation in US-China tensions.

A pick-up in materials and energy prices was supportive of net exporter EM countries including Peru, the UAE, Saudi Arabia and Qatar, all of which outperformed the index. The reciprocal UAE-Israel diplomatic recognition also boosted sentiment towards Middle Eastern markets. India finished ahead of the index. This was despite further acceleration in daily new cases of Covid-19, and renewed tensions on its border with China on the final day of the month.

By contrast, Chile and Brazil finished in negative territory and were the weakest index markets, with weakness amplified by currency depreciation. Turkey, where lira weakness amplified negative returns, and to a lesser extent Taiwan also underperformed.

GLOBAL BONDS

Investor sentiment and risk appetite remained strong in August. Government bond yields rose (bond prices and yields move inversely of each other) and the US dollar continued to decline, while corporate and emerging market bonds performed well.

Investors shrugged off further concerns over Covid-19 with the focus on the Federal Reserve's annual conference at Jackson Hole late in the month. The Fed, significantly, announced that it would tolerate higher inflation, dispensing with its 2% target in favour of a 2% average level. This strengthened investor expectations that highly accommodative monetary policy will remain in place for a long time yet. The global economy showed further signs of modest recovery.

The US 10-year Treasury yield rose by 18 basis points (bps) to 0.70% over the month, while in Europe, Germany's 10-year yield was 13bps higher at -0.40%, with France's rising by 10 to -0.10%. Italy and Spain outperformed, with their 10-year yields rising by eight and seven bps respectively. The UK 10-year yield rose by 21 points to 0.31%.

Corporate bonds outperformed government bonds. High yield credit led amid strong risk appetite, with a continued rebound in those sectors most impacted by Covid-19, such as leisure. Investment grade corporate bonds saw negative total returns (local currency) due to rising yields. Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.

Emerging market (EM) government and corporate bonds (hard currency) produced further positive returns, though at a more moderate pace, led by high yield. Local currency denominated EM debt was slightly lower and there were mixed performances from EM currencies. The Mexican peso, Chinese yuan and Indian rupee gained against the dollar, while the Brazilian real and Turkish lira weakened.

The Thomson Reuters Global Focus index, which measures convertibles, was up 2.6% this month compared to a 6% gain for the MSCI World equity index. Convertibles were in demand by global investors and valuations became more expensive – especially in the technology heavy US segment of the market.

COMMODITIES

The S&P GSCI (commodities index) registered a positive return. Agriculture was the strongest component, with corn and soy beans recording particularly robust returns. Energy and industrial materials components also delivered strong gains. Energy price rises were driven by increased demand as economic activity continued to pick up globally. Nickel and zinc drove gains in industrial metals, amid increased demand from China. In precious metals, silver continued to generate stellar gains while gold slightly lost ground.

TOTAL RETURNS (NET) % – TO END AUGUST 2020

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	6.7	5.5	4.6	16.8	7.5	6.2
MSCI World Value	4.6	3.5	2.6	-1.6	-9.4	-10.5
MSCI World Growth	8.5	7.3	6.4	36.1	25.3	23.8
MSCI World Smaller Companies	5.7	4.5	3.6	7.2	-1.3	-2.5
MSCI Emerging Markets	2.2	1.1	0.2	14.5	5.4	4.1
MSCI AC Asia ex Japan	3.5	2.4	1.5	21.6	12.0	10.6
S&P500	7.2	6.0	5.1	21.9	12.3	10.9
MSCI EMU	4.7	3.5	2.6	5.8	-2.6	-3.7
FTSE Europe ex UK	4.3	3.1	2.2	10.7	2.0	0.7
FTSE All-Share	4.5	3.3	2.4	-4.0	-11.6	-12.7
TOPIX*	7.9	6.6	5.7	9.9	1.2	-0.1

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-1.2	-2.3	-3.2	7.2	-1.3	-2.5
JPM GBI UK All Mats	-1.3	-2.4	-3.2	13.0	4.0	2.8
JPM GBI Japan All Mats**	-0.8	-2.0	-2.8	-3.7	-11.3	-12.4
JPM GBI Germany All Traded	-0.1	-1.2	-2.1	5.7	-2.6	-3.8
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-0.3	-1.4	-2.2	7.7	-0.8	-2.0
BofA ML US Corporate Master	-1.2	-2.3	-3.1	7.5	-1.1	-2.3
BofA ML EMU Corporate ex T1 (5-10Y)	1.3	0.2	-0.7	7.4	-1.1	-2.4
BofA ML £ Non-Gilts	1.0	-0.1	-1.0	13.7	4.7	3.4
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	1.6	0.4	-0.5	5.8	-2.6	-3.8
BofA ML Euro High Yield	2.6	1.5	0.6	8.4	-0.2	-1.4

Source: Thomson Reuters DataStream.
Local currency returns in August 2020: *8.2%, **-0.6%.
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Source: Schroders, August 2020: The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

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