

# Market Review

1 September 2020

## Review of markets over August 2020

At the start of the summer, when lockdowns were gradually lifted, some hoped that the Covid-19 pandemic would recede during the hotter summer months. However, even though record temperatures were registered in August, the virus has unfortunately continued to spread. There have now been over 25 million cases globally, up from 10 million at the start of July.

Even though the number of new daily cases in the US has started to decline, some regions—including Europe—are now facing a second wave. So far, better testing and tracing capacity has allowed European policymakers to treat this second wave with targeted measures, including travel restrictions or the requirement to wear a face mask in public, instead of national lockdowns.

On the economic front, high-frequency data, such as travel and navigation app usage, point to continued global growth over the third quarter, albeit at a more moderate pace, particularly in the US, than in May and June. However, these challenges haven't dented investors' enthusiasm, which seems to have been lifted by a better-than-expected second-quarter earnings season and by the potential for a viable Covid-19 vaccine in the coming months.

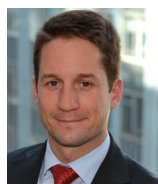
In this context, risk assets continued to rally. Over the month, the MSCI Emerging Markets Index rose by 2.2% and the MSCI Developed Market Index rose by 6.7%. Credit also rallied, while global government bonds fell by 0.2% over the month.

### Exhibit 1: Asset class and style returns

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	Aug '20
MSCI EM	79.0%	Small cap 26.6%	Global Agg 5.6%	Global REITS 23.0%	Small cap 32.9%	Global REITS 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 23.7%	Growth 8.5%
Small cap	44.8%	Global REITS 22.8%	Global REITS 2.3%	MSCI EM 18.6%	Value 27.5%	Growth 6.6%	Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	DM Equities 28.4%	Global Agg 6.1%	Cmnty 6.8%
Growth	33.9%	MSCI EM 19.2%	Value -4.9%	Small cap 18.1%	DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Cmnty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 5.7%	DM Equities 6.7%
Global REITS	32.6%	Cmnty 16.8%	DM Equities -5.0%	Growth 16.6%	Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITS 24.4%	MSCI EM 0.7%	Small cap 5.7%
DM Equities	30.8%	Growth 14.9%	Growth -5.1%	DM Equities 16.5%	Global REITS 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value 10.1%	Value 22.7%	Small cap -4.0%	Value 4.7%
Value	27.7%	DM Equities 12.3%	Small cap -8.7%	Value 16.4%	MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmnty -11.3%	MSCI EM 18.9%	Cmnty -9.0%	MSCI EM 2.2%
Cmnty	18.9%	Value 9.8%	Cmnty -13.3%	Global Agg 4.3%	Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmnty 7.7%	Value -11.3%	Global REITS 1.6%
Global Agg	6.9%	Global Agg 5.5%	MSCI EM -18.2%	Cmnty -1.1%	Cmnty -9.5%	Cmnty -17.0%	Cmnty -24.7%	Global Agg 2.1%	Cmnty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITS -18.8%	Global Agg -0.2%

Source: Bloomberg Barclays, FTSE, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. DM Equities: MSCI World; REITS: FTSE NAREIT Global Real Estate Investment Trusts; Cmnty: Bloomberg Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 August 2020.

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US

In the US, the number of new daily Covid-19 cases reported has been decreasing since the start of August. However, the percentage of Covid-19 tests that are positive remains above the World Health Organization’s recommended limit for reopening (5%) in 27 US states. This high infection rate helps explain why high-frequency data, such as the Google community mobility index and in-store credit card spending, have moved sideways over the month.

On the political front, the negotiations relating to a new coronavirus relief bill have continued to stall in Washington. For millions of Americans, the delay in passing another stimulus package could have painful consequences. Thanks to the CARES Act, passed in March, an extra \$600 per week of unemployment benefit was provided to workers who qualified for unemployment insurance but this extra financial support expired on 31 July. Since the beginning of August, those who have lost their jobs are back on normal, much less generous, unemployment benefits. Without further fiscal stimulus or a vaccine, the jobless are likely to struggle in the face of a potential prolonged period of inactivity due to the pandemic.

The presidential campaign has continued to gather steam with the nomination of Kamala Harris as Joe Biden’s running mate and the official nomination of Donald Trump as the Republican nominee. So far, the most recent polls continue to point to a victory for the Democrats.

On the economic front, most data releases continued to point to solid, though moderating, growth in August. The flash purchasing managers’ indices (PMIs) for both manufacturing and services have both beaten expectations by a wide margin, with readings of 53.6 and 54.8 respectively. However, other advanced economic indicators, including the Empire State and Philly Fed Manufacturing surveys, fell short of expectations. The housing market remained the bright spot for the US economy with housing starts, existing home sales, and homebuilder sentiment (NAHB) all beating expectations.

In terms of monetary policy, the Fed announced a shift to average inflation targeting at the Jackson Hole virtual conference, confirming that monetary policy will remain supportive for the foreseeable future.

August also marked the end of the second-quarter earnings season, which surprised on the upside relative to weak expectations. Even though earnings per share were down 33% year on year, 84% of companies beat expectations and a large number revised their guidance higher for the coming quarters. Unsurprisingly, the healthcare and information technology sectors were particularly strong, while the energy sector’s earnings were hit the most. The S&P 500 and the NASDAQ rallied 7.2% and 9.7% respectively over the month.

Exhibit 2: World stock market returns

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	Aug '20
MSCI EM 79.0%	MSCI Asia ex Japan 19.9%	US S&P 500 2.1%	MSCI Asia ex Japan 22.7%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	US S&P 500 9.7%	Japan TOPIX 8.2%
MSCI Asia ex Japan 72.5%	MSCI EM 19.2%	UK FTSE All-Share -3.5%	Japan TOPIX 20.9%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI Asia ex-Japan 7.2%	US S&P 500 7.2%
UK FTSE All-Share 30.1%	US S&P 500 15.1%	MSCI Europe ex UK -12.1%	MSCI Europe ex UK 20.0%	MSCI Europe ex UK 24.2%	MSCI Europe ex UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex UK -10.6%	UK FTSE All-Share 19.2%	MSCI EM 0.7%	MSCI Asia ex-Japan 3.6%
MSCI Europe ex UK 29.0%	UK FTSE All-Share 14.5%	Japan TOPIX -17.0%	MSCI EM 18.6%	UK FTSE All-Share 20.8%	MSCI Asia ex Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex Japan -14.1%	MSCI EM 18.9%	Japan TOPIX -4.7%	MSCI Europe ex-UK 3.1%
US S&P 500 26.5%	MSCI Europe ex UK 5.1%	MSCI Asia ex Japan -17.1%	US S&P 500 16.0%	MSCI Asia ex Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex Japan -8.9%	MSCI Europe ex UK 3.2%	MSCI Europe ex UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK -6.7%	UK FTSE All-Share 2.4%
Japan TOPIX 7.6%	Japan TOPIX 1.0%	MSCI EM -18.2%	UK FTSE All-Share 12.3%	MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -18.5%	MSCI EM 2.2%

Source: FTSE, MSCI, Refinitiv Datastream, Standard & Poor’s, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 August 2020.

## Europe

In Europe, the August news flow has been dominated by the increase in the number of Covid-19 cases in several countries, including France and Spain, where the daily increase in cases is back close to the levels seen at the height of the crisis in March and April. However, so far, the percentage of Covid-19 tests that are positive remains below the World Health Organization's recommended limit for reopening in all but Spain. Governments have implemented targeted measures, such as travel limitations and requirements to wear face masks, instead of new lockdowns. High frequency data, including travel and navigation app usage, suggest that the rise in infections has so far not damaged activity but advanced economic indicators, such as flash PMIs, suggest that business confidence has been affected.

In terms of hard data, the euro area seasonally-adjusted unemployment rate increased slightly to 7.8% in June, up from 7.7% in May, which suggests that the social safety nets present in most European countries continue to prevent major job losses. As a consequence, consumer confidence remained largely unchanged in August and retail sales have recovered their pre-crisis levels after monthly gains of 20.3% and 5.7% in May and June respectively. Industrial production also rebounded strongly through May to June but it still remains below its pre-crisis levels. However, the increase in new car registrations in Europe, fuelled by government support schemes, together with a positive Ifo reading in Germany, suggest that the manufacturing rebound is ongoing.

In financial markets, European risk assets continued to benefit from the European Council agreement in July to establish a €750 billion European Union (EU) recovery fund, which has reassured investors about the future of the EU. European equity and bonds markets registered positive investor flows in July and August. In this context the euro rose 1.1% versus the dollar. In credits markets European high yield outperformed with a gain of 1.4% in August. However, in equity markets, even though the MSCI Europe ex-UK index posted strong returns in August (+3.1%), it still lagged the US market, which has been boosted by the performance of its large technology stocks.

### Exhibit 3: Fixed income sector returns

2013	2014	2015	2016	2017	2018	2019	YTD	Aug '20
Euro HY 8.8%	Euro Gov. 13.1%	Euro Gov. 1.6%	US HY 17.5%	EM Debt 9.3%	Euro Gov. 1.0%	EM Debt 14.4%	Global IL 8.8%	Euro HY 1.4%
US HY 7.4%	EM Debt 5.5%	EM Debt 1.2%	EM Debt 10.2%	Global IG 9.1%	US Treas. 0.9%	US HY 14.4%	US Treas. 8.8%	US HY 1.0%
Euro Gov. 2.2%	Euro HY 5.5%	US Treas. 0.8%	Euro HY 10.1%	Global IL 8.7%	US HY -2.3%	Global IG 11.5%	Global IG 6.7%	EM Debt 0.3%
Global IG 0.3%	US Treas. 5.1%	Euro HY 0.5%	Global IG 4.3%	US HY 7.5%	Global IG -3.6%	Euro HY 10.7%	Euro Gov. 2.3%	Global IL -0.1%
US Treas. -2.7%	Global IL 3.4%	Global IG -3.6%	Global IL 3.9%	Euro HY 6.1%	Euro HY -3.6%	Global IL 8.0%	EM Debt 2.1%	Global IG -0.3%
Global IL -3.2%	Global IG 3.1%	US HY -4.6%	Euro Gov. 3.2%	US Treas. 2.3%	Global IL -4.1%	US Treas. 6.9%	US HY 0.7%	Euro Gov. -0.8%
EM Debt -6.6%	US HY 2.5%	Global IL -5.0%	US Treas. 1.0%	Euro Gov. 0.2%	EM Debt -4.6%	Euro Gov. 6.8%	Euro HY -2.1%	US Treas. -1.1%

Source: Bloomberg Barclays, BofA/Merrill Lynch, J.P. Morgan Economic Research, Refinitiv Datastream, J.P. Morgan Asset Management. Global IL: Barclays Global Inflation-Linked; Euro Gov.: Barclays Euro Aggregate Government; US Treas: Barclays US Aggregate Government - Treasury; Global IG: Barclays Global Aggregate - Corporates; US HY: BofA/Merrill Lynch US HY Constrained; Euro HY: BofA/Merrill Lynch Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBIG. All indices are total return in local currency, except for EM and global indices, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 August 2020.

## UK

In the UK, high frequency data, such as travel and navigation app usage, show that activity has strengthened in August. Restaurant bookings have been particularly strong thanks to the success of the government’s “Eat Out to Help Out” scheme. Against this backdrop, new cases of Covid-19 have risen again in August but remain relatively low and the percentage of Covid-19 tests that are positive has remained well below the World Health Organization’s recommended limit for reopening.

The Office for National Statistics reported a 20.4% (quarter on quarter) decline in GDP for the second quarter of the year. However, the monthly data showed that GDP has already started to rebound in May and June, with monthly increases of 2.4% and 8.7% respectively, but overall output still remained almost 26% below its pre-crisis level.

Consumption was strong in July with retail sales rising 3.6% over the month, rising back above their pre-crisis level. The flash services PMI for August rose to 60.3 but the employment component of the survey was concerning, decreasing to 38.7. The unemployment rate has remained low until now despite the substantial decline in economic activity thanks to the furlough scheme, which has been used by over 9 million workers. However, with surveys showing that over 3 million workers are still furloughed, the unemployment rate could rise much higher with the scheme set to end in October and the government so far ruling out an extension.

These concerns about a fiscal cliff in October together with stalling Brexit negotiations, have weighed on investors’ appetite for UK assets. Nevertheless, the FTSE All-Share still gained 2.4% in August, although it lagged the recovery in most other regions.

### Exhibit 4: Fixed income government bond returns

2013	2014	2015	2016	2017	2018	2019	YTD	Aug '20
Spain 11.1%	Spain 15.9%	Italy 4.8%	UK 10.7%	Global 7.5%	Spain 2.5%	Italy 10.6%	US 8.8%	Global -0.2%
Italy 7.2%	Italy 15.2%	Spain 1.7%	Spain 4.1%	US 2.3%	Germany 1.9%	Spain 8.3%	UK 6.5%	Italy -0.3%
Japan 2.1%	UK 14.6%	Japan 1.2%	Germany 3.4%	UK 2.0%	Japan 1.0%	UK 7.1%	Global 6.2%	Japan -0.5%
Germany -1.7%	Germany 9.0%	US 0.8%	Japan 3.2%	Spain 1.1%	US 0.9%	US 6.9%	Italy 3.0%	Spain -0.6%
US -2.7%	US 5.1%	UK 0.5%	Global 1.7%	Italy 0.8%	UK 0.5%	Global 5.6%	Germany 1.7%	Germany -1.1%
UK -4.2%	Japan 4.5%	Germany 0.4%	US 1.0%	Japan 0.2%	Global -0.7%	Germany 3.1%	Spain 1.5%	US -1.1%
Global -4.3%	Global -1.0%	Global -3.7%	Italy 0.8%	Germany -1.0%	Italy -1.3%	Japan 1.7%	Japan -1.1%	UK -3.2%

Source: Bloomberg Barclays, Refinitiv Datatsream, J.P. Morgan Asset Management. All indices are Bloomberg Barclays benchmark government indices. All indices are total return in local currency, except for global, which is in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 August 2020.

## Emerging markets and Asia

In Asia, the number of daily new Covid cases rose in India, Indonesia, the Philippines and South Korea but declined in most other countries. In Latin America, the number of new cases remained high although the pace of gains slowed in Brazil, Mexico and Chile, while in the Middle-East and Africa, the number of reported new cases continued to decrease across most of the region.

On the economic front, China continued to draw most of the attention. The Caixin/Markit manufacturing PMI for July came in at 52.8, indicating continued expansion. July economic data generally confirmed that the Chinese economy was continuing to recover, albeit at a slightly more moderate pace. While industrial production and fixed investment picked up by 4.8% and 8.3% (year on year) in July, retail sales came in weaker than expected with a contraction of 1.1%. Unlike in developed market economies, consumption has so far lagged production during this recovery, which is probably due to the lack of government transfers to households.

Chinese equities increased 5.4% over the month.

## Conclusion

The swift and sizeable Covid-19 policy response from central banks and governments has managed to cushion the economic shock and lift markets, as policymakers aimed to build a bridge to the other side of the virus. However, the second wave in Europe reminds us that the battle is far from over and until a vaccine is widely available, economies will likely remain constrained by measures aimed at slowing the spread of the virus. It is therefore important that governments continue to support consumer incomes and businesses until a vaccine is available or until the virus is brought under control by other means. The extent to which they do so will be key to the outlook from here.

Given the high degree of uncertainty around the outlook for the virus and a vaccine we continue to believe it makes sense to aim for balanced and well-diversified portfolios while considering which areas one might want to add to were a vaccine to be announced. In this environment, we favour an up-in-quality approach across both stocks and bonds, along with a focus on valuations relative to fundamentals. Alternatives, such as macro strategies, may also help diversify portfolios given the reduced diversification that government bonds are likely to provide at current yields.

## Exhibit 5: Index returns for August 2020 (%)

INDEX	GBP	USD	JPY	EUR	LOC
<b>Equities (MSCI)</b>					
MSCI World Index	4.6	6.7	7.0	5.5	6.3
MSCI USA	5.4	7.5	7.8	6.3	7.5
MSCI Europe ex-UK	2.2	4.3	4.6	3.1	3.1
MSCI United Kingdom	1.5	3.6	3.9	2.4	1.5
MSCI Japan	5.5	7.6	7.9	6.4	7.9
MSCI AC Asia ex-JP	1.5	3.6	3.9	2.4	3.2
MSCI EM Latin America	-8.1	-6.2	-5.9	-7.3	-3.1
MSCI EM (Emerging Markets)	0.2	2.2	2.5	1.1	2.2
<b>Bonds</b>					
Bloomberg Barclays Global Aggregate	-2.1	-0.2	0.1	-1.3	na
Bloomberg Barclays US Aggregate	-2.8	-0.8	-0.5	-1.9	-0.8
Bloomberg Barclays Japan Aggregate	-2.7	-0.8	-0.5	-1.9	-0.5
Bloomberg Barclays UK Aggregate	-2.6	-0.7	-0.4	-1.8	-2.6
Bloomberg Barclays Euro Aggregate	-1.4	0.6	0.9	-0.5	-0.5
<b>Currencies</b>					
Sterling	na	2.0	2.2	0.8	na
US dollar	-2.0	na	0.3	-1.1	na
Yen	-2.2	-0.3	na	-1.4	na
Euro	-0.8	1.1	1.4	na	na

Source: Bloomberg Barclays, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 31 August 2020.

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