INFORMATION FOR INVESTMENT PROFESSIONALS

COLUMBIA THREADNEEDLE INVESTMENTS

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Market updates

Investment team updates | 10 July 2020

Multi-asset

- Risk markets continue to rally and have recouped much of what was lost in March, denting the valuation case that – at the March lows – offered the prospect of locking in super normal returns.
- At the same time, uncertainty is mounting – from second waves of the virus, to trade tensions, US elections and questions around how labour markets emerge once support schemes fade.
- So, having participated in buoyant markets as we raised our appetite for risk at the end of March, we reversed that move on the last day of June – in a return to "neutral". This does not put us in defensive mode, but rather reduces the overall volatility budget for total return multi-asset portfolios. Indeed, we remain exposed to both equity and credit risk, our preferred asset classes.
- Policy easing continues to run at an extraordinary clip. Lower discount rates are a powerful support as economies recover. Moreover, as economies reset in early stages of recovery, higher equity multiples might be expected.
- But, taking some risk off the table in unconstrained multi-asset funds feels prudent here[1].
- For a more detailed analysis of this read our latest Asset Allocation viewpoint, Asset allocation update: clipping back risk appetite.

US equities

Markets

- The US market had a strong week last week, with the S&P 500 up by 4% and the Russell 2000 up by 3.9%. The Nasdaq was also up, by 4.6%, to end the week at an all-time high. Momentum/growth names outperformed value again, building on the outperformance of this factor over value, but value returns were still positive.
- All sectors were in positive territory led by communication services, real estate and materials. Within communication services, internet-levered names and the FAANGs more broadly did well, while chemicals and packaging groups excelled in materials. Energy, particularly refiners and integrated energy groups, were behind the index despite crude being up and financials also fared worse, especially banks, credit cards and insurers.

[1] For a more detailed analysis read: "Asset Allocation update: clipping back risk appetite", July 2020.

- The market managed to advance despite the concerning growth of coronavirus cases in some parts of the country. California, Texas, Florida and Arizona have all hit a new peak in cases which has led several states to pause or rewind their reopening plans. If this surge continues and becomes embedded it could throw the emergent recovery off course by dampening business activity and confidence.
- There was more good news on the vaccine front as Pfizer and BioNTech came back with positive results in trials.

Economy

- The Coronavirus Aid, Relief, and Economic Security (CARES) Act program is set to expire at the end of July and Donald Trump's administration is still hopeful of reaching agreement on a new package, especially considering the negative impact on GDP if no agreement is reached with Congress.
- The House of Representatives passed a $1.5 trillion infrastructure proposal, but it is uncertain whether it will be passed into law by the Senate. However, this does bode well for future stimulus action should the Democrats secure a clean sweep in November's election.
- Non-farm payrolls in June surprised to the upside for the second month running, as 4.8 million jobs were added to the economy, while the readings for the previous two months were revised upward. However, this data was collected just before the recent uptick in cases so does not reflect the potential impact this will have on the labour market. Initial jobless claims continued to fall, though continuing claims increased slightly and remain far above the pre-crisis levels.
- The ISM Manufacturing reading of 52.6 for June showed expansion in the sector again.
- Indications from the Fed suggest that there is not much support on the Federal Open Market Committee for a policy of yield curve control.

Election

- Joe Biden continues to pull ahead from Trump in the polls, especially in key battleground states like Florida. Although we have previously commented that a Biden presidency (and Democrat sweep of both houses) might lead to higher tax rates and regulation, Biden is considerably more pro-business than his previous challengers for the Democrat nomination such as Bernie Sanders and Elizabeth Warren. It is also looking increasingly likely that a Biden presidency and control of both houses could lead to economic stimulation in the form of a substantial infrastructure package.

European equities

- The Covid-19 first wave appears to be largely over in Europe, so the medical risks lie around second saves or isolated flare-ups, and high infection rates and mortalities in other territories, for example the US.
- The recovery in value stocks has run hard and may now be petering out. Economic activity is set to recover, but expenditure will remain below "normal" (ie pre-virus) levels.
- This means our focus on robust and sustainable business models is crucial. Sadly, high unemployment and the lack of a 100% recovery in economic activity places many others at risk.
- The market recovery has been strong and valuations are more stretched than before. This is only sustainable in the light of stimulatory fiscal and monetary policy, which will again tend to favour our style.

Fixed income

- The Nasdaq hit an all-time high on Thursday 9 July, but the S&P 500 had a more mixed week, ending down -0.6% (S&P500).
- Credit spreads were tighter on 7 July: Global IG was -6% month-to-date, Euro high yield was -3%, and US HY -8%. Core yields were lower, with the US 10-year at 0.58%.
- In the UK Boots and John Lewis are poised to slash staff numbers, with a loss of 5,300 in all. Chancellor Rishi Sunak, in his summer statement, put forward around £30 billion of stimulus, announced a cut in VAT for leisure/hospitality sectors, and a stamp duty holiday for homes up to £500,000.
- Covid-19 cases are on the rise again in the US, topping 3 million overall, and that number is now around 12 million globally.
- Gold closed above $1,800 per ounce on Thursday 9 July – up nearly 20% this year – as Central Banks print more and more money.
- Spanish bank BBVA launched an AT1 (Contingent Capital) green bond – one of the first of its kind.
- German Industrial production for May was up 7.8% month-on-month – lower than expected.
- The ISM Non-Manufacturing index for June was at 57.1, higher than the expected 50.2.
- Euro area retail sales were up 17.8% month-on-month in May, but down 5.1% year-on-year.

Note: all data as at 9 July 2020, unless otherwise specified. Source: Bloomberg.

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