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Flash stats

Q2 2020

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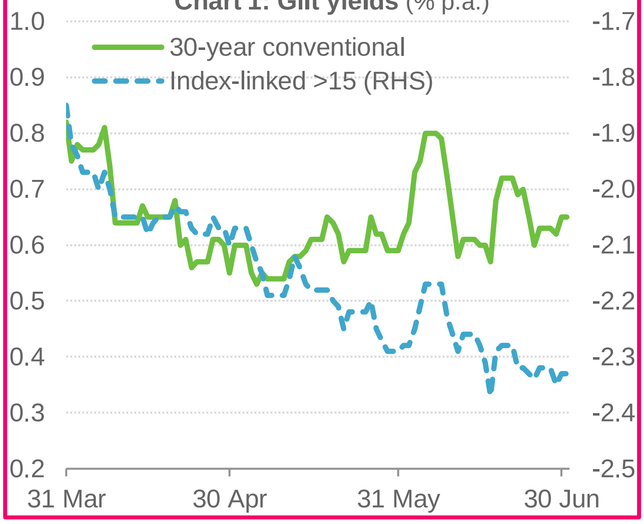
It was a very strong quarter for equity and credit markets as governments provided unprecedented levels of support, central banks implemented previously announced easing and economies began to re-open. However, some lingering uncertainty may be evident in the resilience of government bonds and gold.

Sterling returns (%) to 30 June 2020		3 mths	12 mths			3 mths	12 mths
EQUITY INDICES				**STERLING BOND INDICES**			
Global	*FTSE All-World*	19.8	5.7	Gilts (All)	*FTSE*	2.5	11.2
UK	*FTSE 100*	9.2	-13.8	Index-linked (All)	*FTSE*	10.3	10.6
	FTSE All-Share	10.2	-13.0	Corporates (All)	*iBoxx*	9.0	6.5
US	*S&P 500*	21.0	10.7	**MODEL PORTFOLIOS**			
Japan	*TOPIX*	11.7	6.0	70% equity		12.9	1.0
Europe ex UK	*FTSE Dev Europe*	18.9	0.7	50% equity		11.1	3.1
Emerging	*FTSE Emerging*	18.9	-0.4	30% equity		9.2	5.2

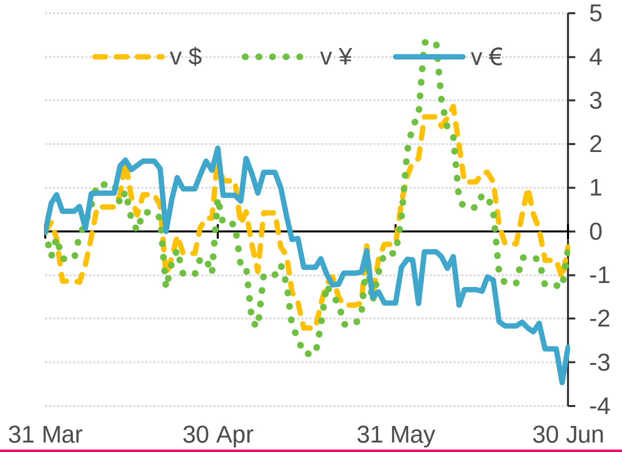
Chart 1: Gilt yields (% p.a.)



- Q1 figures confirmed GDP had fallen across the world since the end of 2019: China -9.8%, Eurozone -3.6%, UK -2.2%, US -1.3%, Japan -0.6%. As many of the developed economies went into lockdown during March, falls in second-quarter GDP are likely to be even greater.
- Purchasing Managers' Indices for both services and manufacturing in the major western economies plunged to record lows in April but, after rebounding in May, saw record rises in June. Though remaining at a level consistent with further economic contraction since May, most commentators suggested the sharp rise from May's numbers provided a better guide to the likely growth in output over the month.
- Forecasts for global GDP growth in 2020 as a whole have fallen significantly since the end of the first quarter. However, there has been some moderation in the pace of downgrades to global 2020 GDP data, with some country level exceptions.
- UK CPI inflation fell from 1.5% in March to 0.5% in May. Lower energy prices made a big contribution to the fall but core inflation (excluding food and energy) has also fallen from 1.6% to 1.2%, as low as it has been since 2016.

- In April, the Fed significantly expanded the corporate credit purchase programmes it had announced in March to include, for the first time, speculative-grade debt. In June, the European Central Bank announced a further €600bn of QE and the Bank of England raised its QE programme from £645bn to £745bn.
- Sovereign bond yields changed little in the US and Germany but UK 10-year gilts have fallen a further 0.2%. Index-linked gilt yields have fallen further than conventional gilt yields, resulting in a slight rise in implied inflation (Chart 1).
- Reflecting the expansion of central bank support, global investment-grade spreads fell from 2.8% p.a. to 1.6% p.a. Global speculative-grade credit spreads fell from 9.2% p.a. to 6.4% p.a., further supported by the specific details of the Fed's purchases and a rise in oil prices from $22 to $41 per barrel. Energy companies comprise c.10% of the US high yield market.
- Sterling consolidated the rebound from its late-March depths in April, but subsequently weakened. In trade-weighted terms, it has fallen more than 2% since the end of March (Chart 2).

Chart 2: Sterling exchange rates
(% change since 31/03/2019)



- Global equity indices rose 18.4% in local currency terms. Sector composition helps to explain why the US (heavy in technology) leads the regional ranking tables for both this quarter and the year to date and why the UK (hardly any technology and heavy in financials) brings up the rear over both periods.
- After a poor first quarter, cyclical sectors have fared better in the second: basic materials, industrials and consumer services, have outperformed the market; oil & gas has been broadly in line. But financials have fallen further behind. Technology is again at the head of the global performance rankings and, after a relatively resilient first quarter, defensive sectors, such as utilities, telecoms and healthcare, have lagged. (Chart 4).
- UK commercial property values continue to fall, although there is little or no transaction activity to guide valuations. As measured by the MSCI UK Monthly Property Index, capital values in May were almost 6% below end-2019 levels. Initial evidence suggests commercial tenants withheld rents at the June quarter collection day in England & Wales to a greater extent than in March. One estimate suggests that receipts fell from 25% to 18% of amounts due.

Chart 3: Q2 Regional equity returns
FTSE All-World Indices (%)

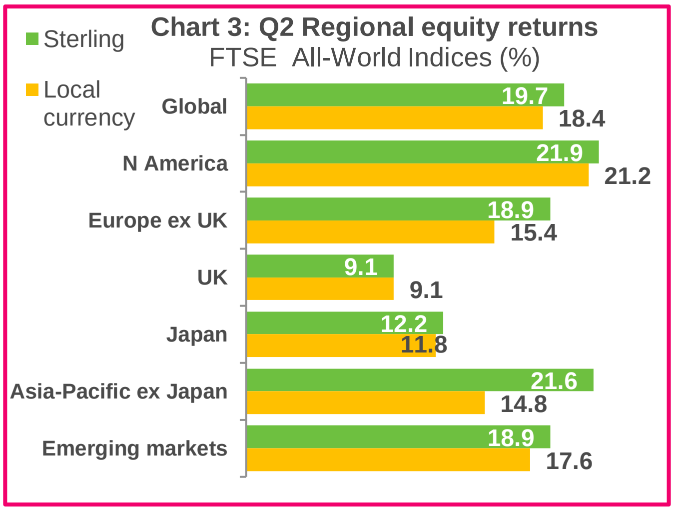


Chart 4: Q2 global sector performance
relative to FTSE All-World Index (%)