OLIM
Investment Managers

Quarterly Market Review

30th June 2020

UK Equities (capital returns)	3m	6m	12m
FTSE All Share	9.8 %	-18.7 %	-15.9 %
FTSE 100	8.8 %	-18.2 %	-16.9 %
FTSE 250	13.4 %	-21.8 %	-12.0 %
FTSE Small Cap	17.6 %	-15.8 %	-10.0 %
FTSE Higher Yield	3.9 %	-25.4 %	-25.3 %

Overseas Equities (capital returns)	3m	6m	12m
FTSE World Index($)	18.8 %	-7.3 %	0.4 %
USA - S&P 500	20.0 %	-4.0 %	5.4 %
Japan - Nikkei 225	17.8 %	-5.8 %	4.8 %
FTSE World Europe Ex UK	14.2 %	-10.3 %	-3.3 %
FTSE World Asia Pacific Ex Japan($)	17.5 %	-10.6 %	-6.0 %
FTSE Emerging All-Cap($)	18.2 %	-11.2 %	-5.6 %

Bonds (total returns)	3m	6m	12m
FTSE Govt. All Stocks	2.5 %	8.9 %	11.2 %
FTSE Govt. up to 5 years	0.6 %	1.4 %	1.7 %
FTSE Govt. over 15 years	3.9 %	15.5 %	19.8 %
FTSE Govt Index Linked All Stocks	10.3 %	12.1 %	10.6 %
FTSE Sterline Corporate Bonds	9.0 %	3.3 %	7.0 %

Currencies (£ spot)	30.06.20	31.03.20	30.06.19
US Dollar	1.24	1.24	1.27
Yen	133.8	133.6	136.9
Euro	1.10	1.13	1.12
Swiss Franc	1.17	1.19	1.24
£ Trade Weighted	75.7	77.5	76.4

Commodities	30.06.20	31.03.20	30.06.19
Oil Brent Crude ($)	41.2	22.7	66.6
Natural Gas (HH, $)	1.75	1.64	2.31
Copper ($)	6015	4951	5993
Iron Ore ($)	103.0	88.0	109.2
Gold ($)	1768	1609	1409
CRB Commodity Index ($)	138.0	121.8	181.0

Yields	30.06.20	31.03.20	30.06.19
FTSE All Share Dividend Yield	4.7 %	5.5 %	4.1 %
10 yr Govt. Bond-UK	0.2 %	0.4 %	0.8 %
10 yr Govt. Bond-USA	0.7 %	0.7 %	2.0 %
10 yr Govt. Bond-Japan	0.0 %	0.0 %	-0.2 %
10 yr Govt. Bond-Germany	-0.5 %	-0.5 %	-0.3 %

Source: Bloomberg, local currencies unless stated

MARKET REVIEW

World stock markets have gradually recovered from their March low points, responding to the concerted monetary stimulus being applied by the world's central banks and optimism that economies can recover as lockdown measures are eased. The FTSE World Index (measured in dollars) rose by 18.8 % in the quarter, clawing back much of the ground lost in Q1. The rise was led by the German stock market which rose by 23.8 %. The USA also performed well and the main US market indices, dominated by the technology giants, have almost recovered to their pre-coronavirus levels, with the S&P 500 rising by 20.0 % in the period. The UK market underperformed the rest of the world again, held back by its large exposure to oil companies and banks. The FTSE All Share Index rose by 9.8 % in the quarter and registered a 10.2 % total return (XD adjusted). Small and Mid-cap stocks recovered more strongly, with the FTSE Small Cap Index rising by 17.6 % and the FTSE Mid 250 Index by 13.4 %. Higher yielding stocks continued to underperform with the FTSE Higher Yield Index rising by just 3.9 %. Stock market volatility has declined but is still above pre-virus levels and there have continued to be large day-to-day movements in both directions.

Bond markets were not unduly affected in the face of the strong stock market performance and hopes for an economic recovery. The benchmark US 10-year bond ended the quarter yielding 0.7 %, the same as three months ago. UK gilt prices rose and the 10-year gilt yield fell to just 0.2 %, down from 0.4 % at the start of the quarter. As a result, gilts recorded a positive total return of 2.5 %.

Some five months after the virus was first identified in the UK it is still difficult to underplay the impact that Covid 19 has had on day-to-day life. The country is only now emerging from its period of lockdown as the restrictions on daily life are gradually eased. As a result, economic activity is slowly returning but social distancing requirements are likely to mean that the recovery is drawn out. It is estimated that the economy shrank by around a quarter through March and April due to the lock down as many sectors were simply prevented from trading. Non-food retail shops were shuttered and pubs and restaurants were closed along with many service based businesses such as hairdressers, gyms and beauty parlours. Some of these may never recover to the levels of trading seen before the virus as social distancing requirements will mean a permanent loss of capacity. However, economic activity should begin to improve as businesses are allowed to open up. The likely level of unemployment resulting from the lock down remains a key factor in assessing the economy's recovery potential. Unemployment has begun to rise but the true impact is being obscured by the government's furlough scheme, which will only begin to unwind in the coming months.

The UK's serviced based economy has made it especially vulnerable to the virus and the poor relative performance compared to other world economies, combined with a renewal of the concerns over whether or not we will leave the EU with a trade deal has led to further weakening in the value of the pound. Sterling ended the quarter marginally down against the dollar and 2 % down against the Euro, at $1.24 and €1.10 respectively. Commodity prices have shown some recovery as lock down measures have been eased with price of oil more than doubling from its sub $20 per barrel low point, although this still leaves it down by over a third since the start of the year.

MARKET REVIEW (continued)

UK inflation has remained subdued with the latest reading of the UK CPI coming in at just 0.5%. This level gives the Bank of England plenty of scope to continue providing monetary support to the economy and it has increased the amount of quantitative easing by a further £100bn from its initial level of £200bn in response to the crisis.

Economic activity around the world is now beginning to recover as countries start easing their local lock downs. It seems likely that world economic activity will shrink by somewhere between 5% and 10% for 2020 as economies rebound from the low points seen in Q1. The UK is likely to experience a double-digit percentage contraction in economic activity because of its particular sector exposures. The pace of the recovery, both in the UK and around the world, will crucially depend on the success of avoiding further lockdowns.

OUTLOOK

Share prices have rebounded from their March low point and have recovered some of their losses, driven higher by a combination of monetary stimulus and optimism regarding the pace at which lock down measures can be eased and the speed of economic recovery.

Future share price and economic performance is still inextricably linked to the success that the authorities have in controlling the spread of the virus and the picture here is mixed. Europe appears to have been successful and case numbers are falling steadily, but the USA is experiencing renewed growth in infections, suggesting that the authorities there may have begun to ease lock down measures too soon. Case numbers are also growing rapidly in many developing countries such as India, Pakistan and Brazil.

In the UK the true economic cost will only be seen once the government's furlough scheme ends and the true scale of job losses realised. Consequently, it may take some time for consumer and business confidence to recover.

Whilst it is difficult to see share prices making great advances from here until the virus is firmly under control, share prices should, nonetheless, be supported by recovering economic activity and the continuing monetary support being provided by the world's central banks.

CHART OF THE QUARTER – FTSE ALL SHARE INDEX LONG-TERM, CAPITAL ONLY