

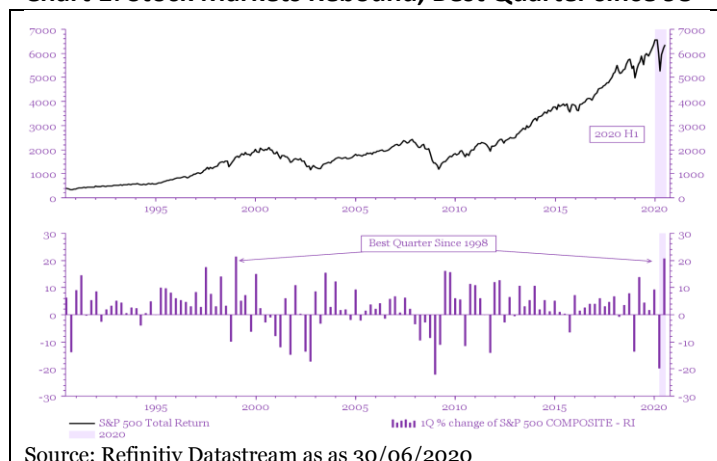


2020 Q2 REVIEW: RELIEF RALLY, DOUBTS REMAIN

Global equities staged a remarkable comeback over 2020 Q2, fuelled by unprecedented levels of global policy support and relief as economies gradually reopened. Following the worst quarter for global stocks since the fourth quarter of 2008 in local currency terms, the S&P 500 went on to record its best quarter since 1998 on a total returns basis (chart 1). Commodities also had a strong quarter; Brent rose over 80%, its strongest quarter since 1990 as the Organisation for Petroleum Exporting Countries plus supply cuts and improvements in demand helped to balance oil markets. High yield bond markets also made record gains, rallying the most since 2009 as the US Federal Reserve pledged to buy corporate bond ETFs and fallen angels (chart 2). Government bonds were stable despite the improvement in risk appetite as central banks reiterated their intention to keep interest rates low.

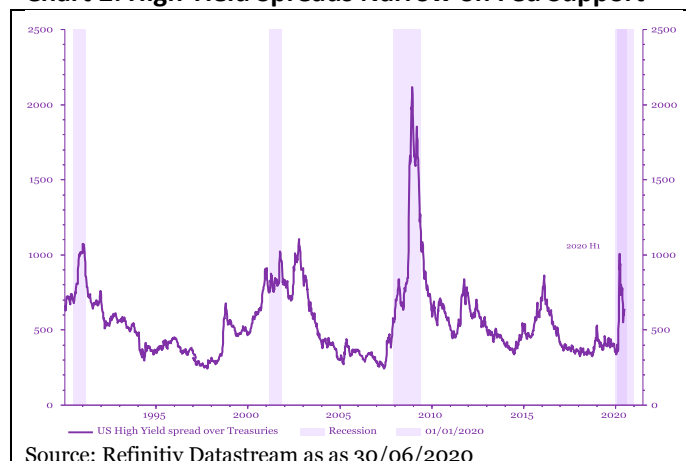
We participated in the recent equity relief rally, holding a small overweight position in stocks for most of the quarter. We have now moved to a more neutral position in the asset class as the rise in new Covid cases threatens to disrupt the economic reopening story. We have a strong preference for high yield bonds over commodities and UK property and we favour emerging markets over the UK and technology over financials. Please see our [Investment Clock blog](#) for the latest information on our active strategies.

Chart 1: Stock Markets Rebound, Best Quarter since 98



Source: Refinitiv Datastream as as 30/06/2020

Chart 2: High Yield Spreads Narrow on Fed Support



Source: Refinitiv Datastream as as 30/06/2020

Table 1: Sterling-based annual returns from major asset classes: Global stocks flat YTD; UK market still down

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD
1	EM Stocks +37.4%	Gilts +12.8%	EM Stocks +62.5%	EM Stocks +23.6%	Gilts +15.6%	EM Stocks +12.8%	Global Stocks +21.2%	Property +19.5%	Property +13.9%	EM Stocks +35.4%	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Gilts +8.9%
2	Commodities +14.3%	Cash +5.7%	UK Stocks +30.1%	Commodities +20.5%	Property +8.1%	UK Stocks +12.3%	UK Stocks +20.8%	Gilts +13.9%	Global Stocks +4.4%	Commodities +33.3%	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	Global Stocks +1.6%
3	Global Stocks +11.2%	Multi Asset -10.4%	Global Stocks +20.6%	Global Stocks +17.2%	Multi Asset +1.6%	Global Stocks +12.1%	Property +11.0%	Global Stocks +12.2%	Multi Asset +1.8%	Global Stocks +30.3%	UK Stocks +13.1%	+0.6%	EM Stocks +15.9%	Cash +0.2%
4	Cash +6.0%	Commodities -10.9%	Multi Asset +12.6%	Property +14.7%	Cash +0.6%	Multi Asset +7.1%	Multi Asset +7.3%	EM Stocks +7.9%	UK Stocks +1.0%	UK Stocks +16.8%	Property +11.2%	Multi Asset -1.2%	Multi Asset +8.9%	Multi Asset -2.8%
5	Multi Asset +5.5%	Global Stocks -18.5%	Commodities +5.9%	UK Stocks +14.5%	UK Stocks -3.5%	Gilts -2.7%	Cash +0.5%	Multi Asset +6.5%	Gilts +0.6%	Multi Asset +12.1%	Multi Asset +6.3%	Global Stocks -3.1%	Gilts +6.9%	Property -3.4%
6	UK Stocks +5.3%	Property -22.6%	Property +1.9%	Multi Asset +11.7%	Global Stocks -6.9%	Property +2.3%	Gilts -3.9%	UK Stocks +1.2%	Cash +0.5%	Gilts +10.1%	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	EM Stocks -3.7%
7	Gilts +5.3%	UK Stocks -29.9%	Cash +1.0%	Gilts +7.2%	Commodities -12.7%	Cash +0.6%	EM Stocks -5.3%	Cash +0.5%	EM Stocks -10.3%	Property +2.6%	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -13.6%
8	Property -5.4%	EM Stocks -34.8%	Gilts -1.2%	Cash +0.6%	EM Stocks -18.4%	Commodities -5.4%	Commodities -11.2%	Commodities -11.8%	Commodities -20.3%	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -17.5%

Source: RLAM, DataStream as of July 2020; Property Return as of May 2020. Multi Asset returns are based on the benchmark returns of Royal London Global Multi Asset Portfolio (GMAP) Balanced Fund.



MARKETS: V-SHAPED REBOUND IN RISK ASSETS

- Global equities experienced their best quarter since 1998 in local currencies fuelled by policy support and the gradual reopening of the economy
- US stocks outperformed led by the tech sector. The UK lagged other regions due to a poor sectoral mix and concerns over virus management and Brexit
- Industrial metals rallied as China evidenced recovery earlier. Copper rose the most in over a decade. Elsewhere, gold topped \$1,800 for the first time since 2011, as second wave fears mounted
- Sterling continued to slide, while the Australian dollar strengthened with other risk-sensitive assets.

	1 GBP buys	Q2 (vs GBP)	ytd
FX			
USD	1.24	0.2	7.1
EUR	1.10	2.6	7.3
CHF	1.17	2.1	9.3
JPY	133.5	0.1	7.9
AUD	1.80	13.1	5.1
CAD	1.69	4.3	2.1

	Rate (%)	chg in Q2 (%)	ytd (%)
CB rates			
Fed	0.25	0.00	-1.50
BoE	0.10	0.00	-0.65
ECB	-0.50	0.00	0.00
BoJ	-0.07	0.00	0.00

	Yield (%)	chg in Q2 (bps)	ytd chg (bps)
Bond Yield			
US 10 Year	0.66	-1	-126
UK 10 Year	0.17	-18	-65
EU 10 Year	-0.45	2	-27
JP 10 Year	0.03	1	4

As of 30-Jun-20

Multi Asset

	Local Currency		GBP	
	Q2	ytd	Q2	ytd
UK Stocks	10.2	-17.5	10.2	-17.5
Global ex UK Stocks	18.9	-4.6	20.3	1.6
Gilts	2.5	8.9	2.5	8.9
UK Cash	0.1	0.2	0.1	0.2
UK Property	10.7	-10.4	10.7	-10.4
Commodities	5.1	-19.4	5.4	-13.6

Equity Regions

	Local Currency		GBP	
	Q2	ytd	Q2	ytd
UK	10.2	-17.5	10.2	-17.5
North America	21.3	-2.5	21.9	4.3
Europe ex UK	15.4	-8.8	18.9	-1.9
Japan	11.8	-7.5	12.2	-0.1
Pacific ex Japan	15.6	-7.9	21.5	-2.8
Emerging Markets	17.6	-6.1	18.9	-3.7

Global

Equity Sectors

	Local Currency		GBP	
	Q2	ytd	Q2	ytd
Consumer Discretionary	28.0	2.1	29.2	8.7
Industrials	16.5	-12.7	17.9	-7.0
Financials	10.7	-21.8	12.6	-17.7
Consumer Staples	8.4	-4.5	9.7	1.0
Utilities	6.0	-8.1	7.2	-2.4
Healthcare	14.8	2.8	15.9	9.9
Energy	16.4	-31.3	18.6	-28.7
Materials	23.4	-5.9	26.3	-1.7
Communication Services	7.2	-8.3	8.7	-2.9
Information Technology	29.6	12.6	30.6	20.6

Bonds

	Local Currency		GBP	
	Q2	ytd	Q2	ytd
Conventional Gilts	2.5	8.9	2.5	8.9
Index Linked Gilts	10.3	12.1	10.3	12.1
GBP Credit	7.0	3.3	7.0	3.3
Global High Yield	10.9	-3.4	10.8	-4.1

Commodities

	Local Currency		GBP	
	Q2	ytd	Q2	ytd
Energy	9.8	-46.3	10.2	-42.4
Agriculture	-4.8	-14.2	-4.5	-8.0
Industrial Metals	12.3	-8.4	12.7	-1.8
Precious Metals	15.0	13.8	15.4	22.0

Note: Standard indices sourced from DataStream and Bloomberg; Property data as of April 2020.

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