



2020 Q3 REVIEW: GLOBAL RECOVERY GETS BUMPY

Global equities continued to advance over Q3, progressing into positive year-to-date territory as economic data continued to rebound after an easing of social distancing measures. Stocks retreated with other risk assets in September, however, as uncertainty rose ahead of the US presidential election and as Covid cases started to rise again, especially in Europe (Chart 1). Despite a pullback during the September sell-off, US equities were once again leaders on a regional basis (Chart 2). They were joined by emerging markets stocks which also enjoyed a period of outperformance, helped by a weaker dollar and a strong recovery in China. In FX markets, sterling rallied with the euro, although gains in the former were pared by Brexit uncertainty.

We participated in the equity rally, holding a small to moderate overweight position for most of the quarter, reducing in September as uncertainty picked up. We continue to prefer US equities over UK and European stocks and we maintain a long standing bias towards the technology sector over energy. We see two-way risk in the short term but we're optimistic on stocks longer term given the degree of stimulus in place and would consider buying dips. See our [Investment Clock blog](#) for the latest information on our strategies.

Chart 1: Risk Assets Advance Despite September Dip

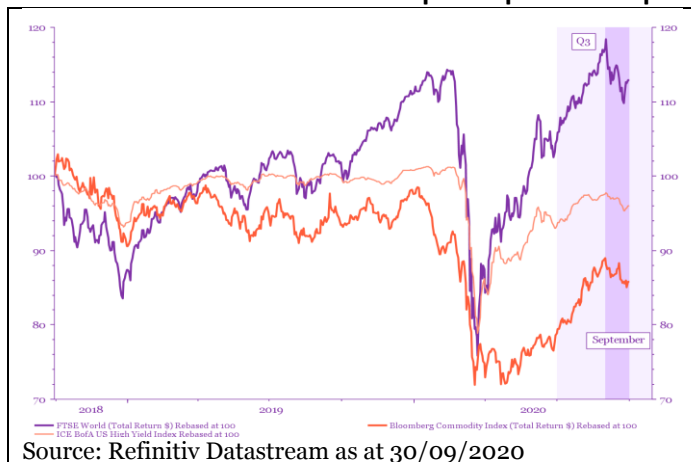


Chart 2: US and EM stocks lead regional performance



Table 1: Sterling-based annual returns from major asset classes 2007-2020 YTD

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 +7.6%
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 +5.4%
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%	Gilts +0.6%	EM Stocks +15.9%	EM Stocks +0.6%
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%	Cash +0.3%
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%	Multi Asset -2.1%
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%	Property -3.3%
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 -9.9%
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 -19.9%

Source: RLAM, DataStream as of 1 October 2020; Property Return as of August 2020. Multi Asset returns are based on the benchmark returns of Royal London Global Multi Asset Portfolio (GMAP) Balanced Fund.



MARKETS: RECOVERY IN RISK ASSETS CONTINUES

As of 30-Sep-20

- Despite a pullback in September, global equities moved into positive year-to-date territory as global economies continued to reopen.
- US stocks outperformed alongside Emerging Markets. UK stocks further extended their underperformance.
- Metals outperformed: gold advanced as real interest rates fell while copper rose on strong data in China.
- U.S. dollar weakness continued with the greenback reaching a two-year low during the quarter. Brexit uncertainty saw sterling weakness in September.

	1 GBP buys	Q3 (vs GBP)	ytd
FX			
USD	1.29	-4.1	2.7
EUR	1.10	0.0	7.2
CHF	1.19	-1.4	7.8
JPY	136.3	-2.0	5.7
AUD	1.80	-0.2	4.9
CAD	1.72	-1.9	0.2

	Rate (%)	chg in Q3 (%)	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	-0.06	0.01	0.01

	Yield (%)	chg in Q3 (bps)	ytd chg (bps)
Bond Yield			
US 10 Year	0.68	3	-123
UK 10 Year	0.23	6	-59
EU 10 Year	-0.52	-7	-34
JP 10 Year	0.02	-1	3

Multi Asset

	Local Currency	GBP		
	Q3	ytd	Q3	ytd
UK Stocks	-2.9	-19.9	-2.9	-19.9
Global ex UK Stocks	7.5	2.5	3.7	5.4
Gilts	-1.2	7.6	-1.2	7.6
UK Cash	0.0	0.3	0.0	0.3
UK Property	2.9	-0.9	2.9	-0.9
Commodities	9.1	-12.1	4.2	-9.9

Equity Regions

	Local Currency	GBP		
	Q3	ytd	Q3	ytd
UK	-2.9	-19.9	-2.9	-19.9
North America	9.3	6.5	4.5	9.0
Europe ex UK	2.0	-6.9	1.4	-0.5
Japan	4.8	-3.0	2.4	2.3
Pacific ex Japan	4.6	-3.7	2.3	-0.6
Emerging Markets	8.7	2.0	4.5	0.6

Global

Equity Sectors

	Local Currency	GBP		
	Q3	ytd	Q3	ytd
Consumer Discretionary	16.9	19.3	12.8	22.6
Industrials	9.5	-4.3	6.3	-1.1
Financials	0.2	-21.6	-2.9	-20.1
Consumer Staples	5.6	0.9	2.6	3.7
Utilities	2.7	-5.6	-0.4	-2.9
Healthcare	3.6	6.5	0.1	10.0
Energy	-13.4	-40.5	-16.4	-40.4
Materials	9.8	3.2	6.9	5.1
Communication Services	-0.7	-8.9	-3.7	-6.4
Information Technology	12.1	26.2	7.8	29.9

Bonds

	Local Currency	GBP		
	Q3	ytd	Q3	ytd
Conventional Gilts	-1.2	7.6	-1.2	7.6
Index Linked Gilts	-2.2	9.7	-2.2	9.7
GBP Credit	1.2	4.5	1.2	4.5
Global High Yield	3.8	0.3	3.5	-0.7

Commodities

	Local Currency	GBP		
	Q3	ytd	Q3	ytd
Energy	4.3	-44.0	-0.3	-42.6
Agriculture	11.9	-4.0	7.0	-1.6
Industrial Metals	11.2	1.8	6.3	4.3
Precious Metals	7.8	22.6	3.0	25.7

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

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