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Equitable Life

Monthly Market Review
To 31 October 2020

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1. Equities

Global equities fell in October as rising coronavirus cases led to renewed lockdown restrictions. The FTSE World Index decreased by 3.0%. Europe was the worst-performing region, with the German market recording large drops.

The continent saw a rapid growth in Covid-19 infection rates, leading to personal restrictions and business closures in most countries. The UK government announced a further lockdown in November after markets closed at month-end, with UK stocks falling throughout October. Travel stocks continue to struggle, with Easyjet forecasting the first loss in its history. The hospitality sector is also suffering –several national restaurant chains announced job cuts. UK small-cap shares outperformed blue-chip firms over the month.

The US earnings season began in mid-October and results have generally been positive. Of the companies that had reported at the time of writing, 85% beat analyst forecasts. But concerns about the virus and the presidential election outweighed the results optimism. Bucking the trend, Alphabet, Google's parent company, performed well over the month. This was in spite of an antitrust case brought by the US Department of Justice. Overall, US equities were down, with large companies faring worse than smaller peers; the small-cap Russell 2000 rose over the month.

In Asia, Japanese indices fell in October, weighed down by concerns about Covid-19 and the upcoming US presidential election. However, stocks in the wider region rose. China, Indonesia and the Philippines were notably strong markets. In particular, positive corporate earnings and optimism about the economic recovery supported Chinese markets.

Looking at sectors, technology and software firms struggled this month. SAP, Europe's largest software firm, fell sharply after revising down profit and growth forecasts. Microsoft and Apple fell back as analysts questioned their long-term growth prospects. Energy stocks suffered as oil prices fell. Brent crude finished the month under $38 per barrel, while West Texas Intermediate fell under $36. Banking stocks were more resilient, buoyed by higher yields on government bonds.

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2. Bonds and Economics

In aggregate, bond indices rose in October. Euro-denominated bonds generally rose but volatility late in the month hit some US dollar Treasury and corporate bonds. This wiped out most of the gains from the start of the month. Global investment-grade bonds fell over the month, while high-yield bonds eked out slight gains.

The UK's unemployment rate rose to 4.5% in the three months to August, with redundancies almost doubling. The furlough scheme was due to finish at the end of November, with a less-generous job support programme set to replace it. Prime Minister Boris Johnson extended the scheme when announcing a fresh lockdown for England. Inflation was higher in September as the 'eat out to help out' scheme ended; retail sales volumes rose in August and September. The 10-year gilt yield rose in October, driving prices lower.

Data showed that US gross domestic product grew by 33% in the third quarter, rebounding after sharp declines in the second quarter. The unemployment rate fell below 8% in September's report, although jobless claims have remained high. Negotiations over a second coronavirus stimulus package rolled on throughout October with no resolution – meaning any new package will come after the election. US Treasury yields rose, pushing bond prices lower.

The Bank of Japan kept rates unchanged at its latest policy meeting. It lowered growth forecasts for 2020 but raised its 2021 predictions. The European Central Bank held rates, but President Christine Lagarde suggested more monetary support may come in December. The Eurozone's coronavirus-related bonds saw huge support, with orders more than 13 times higher than supply for the new issue.

3. Real Estate

At an all property level, the total return for September was 0.3% (the latest data available), according to the MSCI monthly index. Performance at the sector level remained highly polarised, with industrials recording the strongest growth at 1.1%. The residential sector, which also remains a favoured sector for investors, recorded a return of 0.3% over the same period. Consumer-facing sectors, notably retail and hotels, are dragging down the all property return. Both of these sectors posted a -0.3% return for September.

The outlook for offices remains hotly debated. The sector is likely to face structural changes as a result of the rise in more flexible working arrangements. Along with retail, the skew of risks for offices remains to the downside. Meanwhile, there is still strong structural support for logistics. This is despite significant capital growth in recent years, which has pushed yields down to unprecedented lows. We are particularly positive about the ever-increasing demand for urban logistics units and the inflexible nature of supply.

Until pricing adjusts to reflect the increased risk to income and values, it remains difficult to identify opportunities. But the universe of assets that can offer a robust income and stable rental values and yields has narrowed. Price discovery and the longer-term implications of the current crisis will drive our views around the opportunities in the weeks and months ahead.

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4. IMPORTANT INFORMATION

The value of investments and the income from them can go down as well as up and you may get back less than the amount invested.

If you are unsure about the suitability of an investment you should speak to an Independent Financial Adviser who will inform you of the fee they charge for their service. To find Independent Financial Advisers in your area, the website www.unbiased.co.uk is very helpful.

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