Market & Economic Update

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Welcome to our latest market and economic update, which looks back over the month of March 2020.

Market Commentary

Global equity markets experienced a sharp sell-off in March, as the coronavirus pandemic and fears over its economic impact spread across the world.

Against this backdrop there were broad losses across regions and asset classes, with commodity markets notably weaker, as a Saudi-Russia price war sent oil prices to their lowest levels since 2002.

Conversely, the traditionally more defensive asset classes, such as gold and core government bonds, outperformed as yields fell to historic lows. In currency markets, the Japanese yen and US dollar were also notably strong over the month.

Chris Godding
Chief Investment Officer

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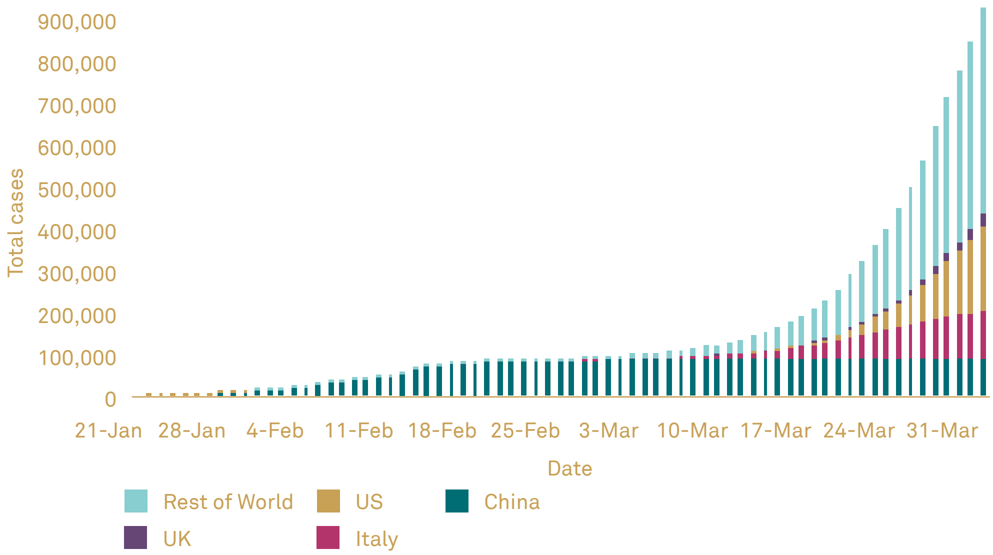
In the latest chart of the month, we highlight the rapid increase in global Covid-19 cases.

Coronavirus confirmed cases



Source: DataStream/Tilney

Our thoughts first and foremost are with everyone fighting this humanitarian crisis around the world and those that have lost loved ones.

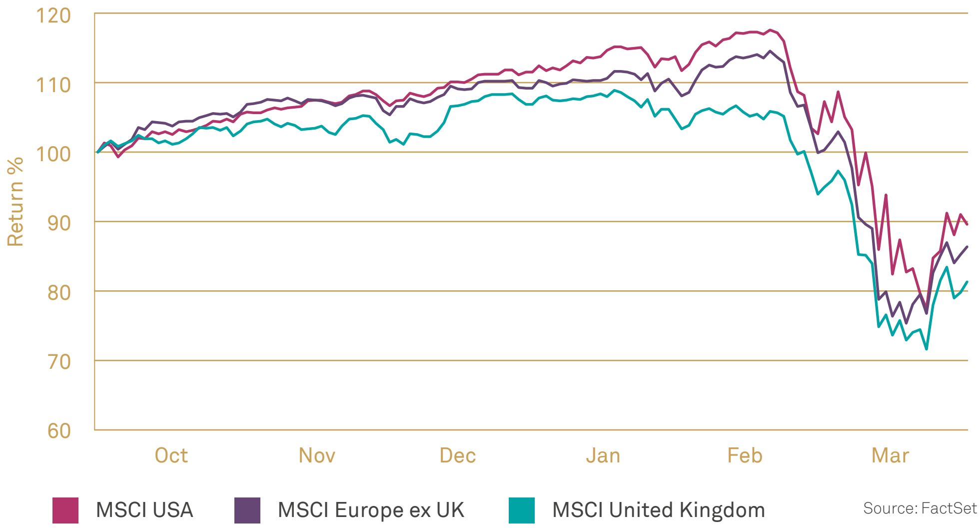
The purpose of including this chart is to provide some global context to the crisis, which has had a dramatic impact on people's lives and the global economy.

At the time of writing, the global growth rate of new cases was running just below 10% for the third straight day, with the UK and US appearing to be a few weeks behind the data trend witnessed in Italy. Italy now has lower new case and fatality growth rates, which provides hope that the lockdown measures are working, alongside early signs in parts of Asia that lockdown measures are coming to an end.

UK, US and Europe

- Global equities sold off sharply in March as the coronavirus pandemic spread from Asia and economies around the world went into lockdown. As the performance chart below highlights, there were material losses across developed equity markets. This was despite a partial rebound towards the end of the month as global central banks and governments announced a range of financial packages to help mitigate the economic shock.
- On a total return basis, the MSCI USA index returned -12.7% in local currency terms and -10.0% in sterling terms over the month. At the sector level, there were broad losses over the month, with the energy and financials sectors amongst the laggards. Conversely, it was the more defensive areas of the market, such as health care, consumer staples and utilities, which outperformed.
- UK equities were also notably weak in March, with UK large caps (-13.4%) outperforming mid-caps (-21.7%) and smaller companies (-26.3%) over the month. At the sector level there were also broad losses, with banks and energy amongst the laggards, while health care and utilities outperformed. As a result of the economic uncertainty, March saw a range of companies announce that they were cutting or suspending their dividends, particularly in the banking sector, which also saw bonuses and share buybacks suspended under regulatory pressures.

UK, US & Europe Markets, Percentage Growth, Total Return



Source: FactSet

- European equities were also weak in March, with bourses in Italy and Spain amongst the laggards over the month. On a total return basis, the MSCI Europe ex UK index returned -13.7% in local currency terms and -11.2% for sterling investors over the month. At the sector level, there was a similar pattern of losses to the other developed equity markets, with the banking sector notably weak and under similar regulatory pressures as the UK. The flash Eurozone composite PMI data highlighted the severity of the economic outlook, as the index fell from 52.6 to 31.4 putting it into contractionary territory.
- Overall, the first quarter of 2020 will be remembered as a particularly weak period for developed equity market returns. In local currency and total return terms, the MSCI USA index returned -19.6%, followed by the MSCI Europe ex UK index -20.8% and the MSCI UK index -23.9%.

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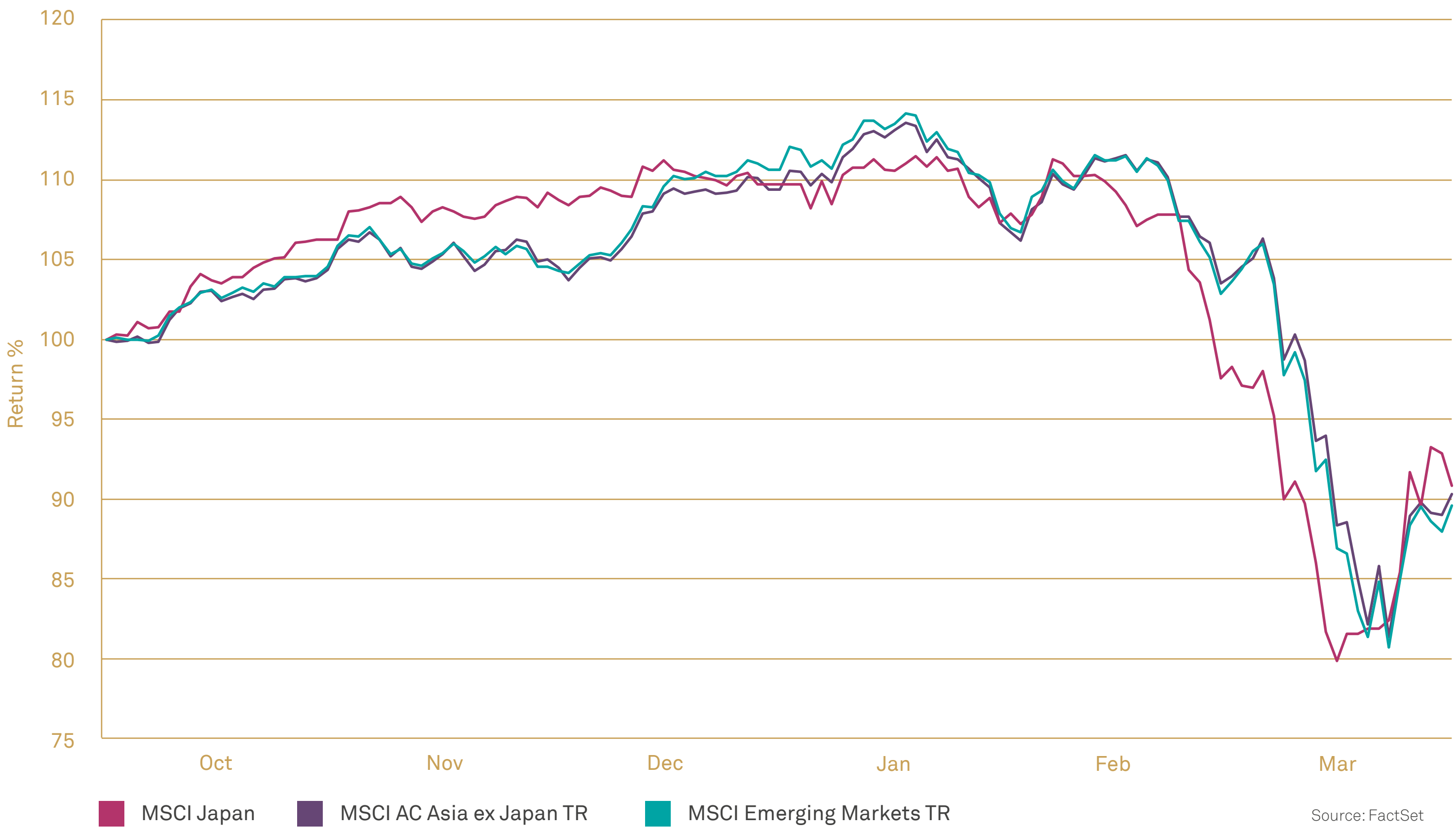
Asia, Japan & the Emerging Markets

- Asian and Emerging Market equities were also weak in March linked to the spread of the coronavirus and global drop in economic activity. The headline MSCI Asia Pacific excluding Japan and MSCI Emerging Markets indices generated total returns of -14.0% and -15.4% respectively in local currency terms over the month. For sterling investors this resulted in returns of -11.4% and -12.8% respectively.
- In local currency terms, Chinese equities were amongst the strongest relative performers in the month, reflecting a reported drop in coronavirus cases and easing of lockdown conditions. The mainland Shanghai Composite returned -4.5% and Hong Kong's Hang Seng index returned -9.5%.
- Japanese equities also sold off sharply in March before staging a partial recovery at the end of the month. The MSCI Japan index returned -6.9% in local currency terms over the month and -4.2% for sterling investors. On the macroeconomic front, the latest data releases highlighted a drop in output not seen since the 2011 tsunami. In response, the Japanese government and Bank of Japan announced financial plans to support firms and the economy.
- First quarter returns were unsurprisingly weak overall. In local currency terms, the MSCI Asia Pacific excluding Japan and MSCI Emerging Markets indices generated total returns of -20.7% and -23.6% respectively, while the MSCI Japan index returned -17.2%.

Asian & Emerging Markets, Percentage Growth, Total Return

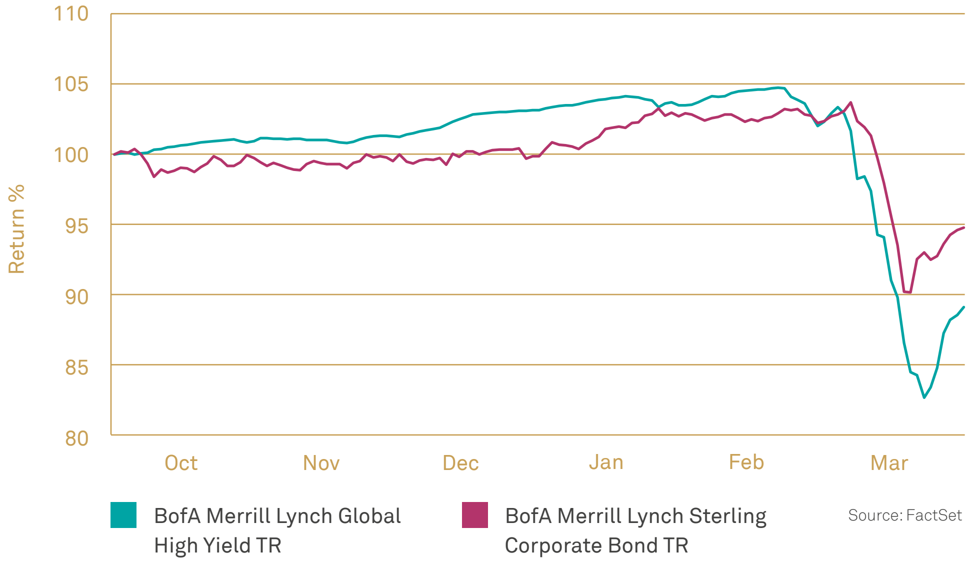


Source: FactSet

Fixed income

- As highlighted already, returns from core government bonds were amongst the strongest in March as yield fell to historic lows, global central banks announced new support measures and global investors sought 'safe haven' assets. In local currency terms, UK gilts returned +1.4% and US Treasuries returned +3.3%, while German bunds -1.2% were the laggards.
- However, fixed income markets were not immune from global market volatility and liquidity concerns in the month, with credit markets also suffering losses as spreads widened. In local currency terms, sterling investment grade corporates returned -6.9% over the month, while global high yield at -12.8% was notably weak, reflecting the risk-off market backdrop and fall in energy prices.

Fixed Income Markets, Percentage Growth



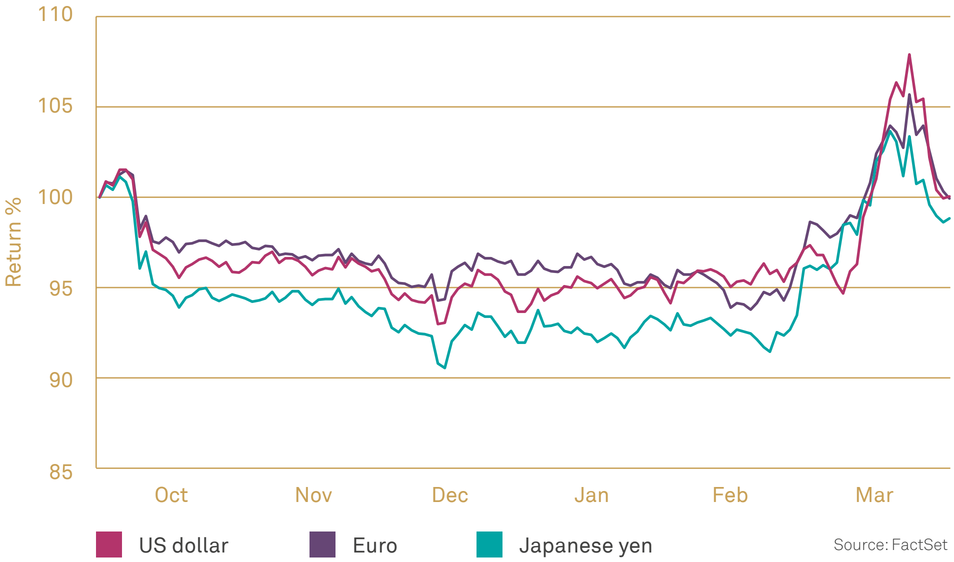
Source: FactSet

- Overall, the first quarter of 2020 was positive for returns from government bonds, but negative for credit markets. In local currency and total return terms, US Treasuries returned +9.0%, UK gilts +6.3%, German bunds +2.2%, sterling corporates -4.7% and global high yield -14.1%.

Currencies

- March was another notably weak month for sterling against other major currencies, as the coronavirus pandemic sent the UK into lockdown and both the Bank of England and Chancellor announced huge packages to try and prop up the economy. In sterling terms, the euro and Japanese yen were both up +2.9% and the US dollar returned +3.0%.
- March was also another positive month for the US dollar index against a basket of currencies, again reflecting the greenback's defensive characteristics amid volatile market conditions.
- Overall, the first quarter of 2020 was negative for sterling against other major currencies. In sterling terms, the euro returned +4.4%, the Japanese yen +7.6% and the US dollar was up +6.8%.

Currency Returns relative to GBP, Percentage Growth

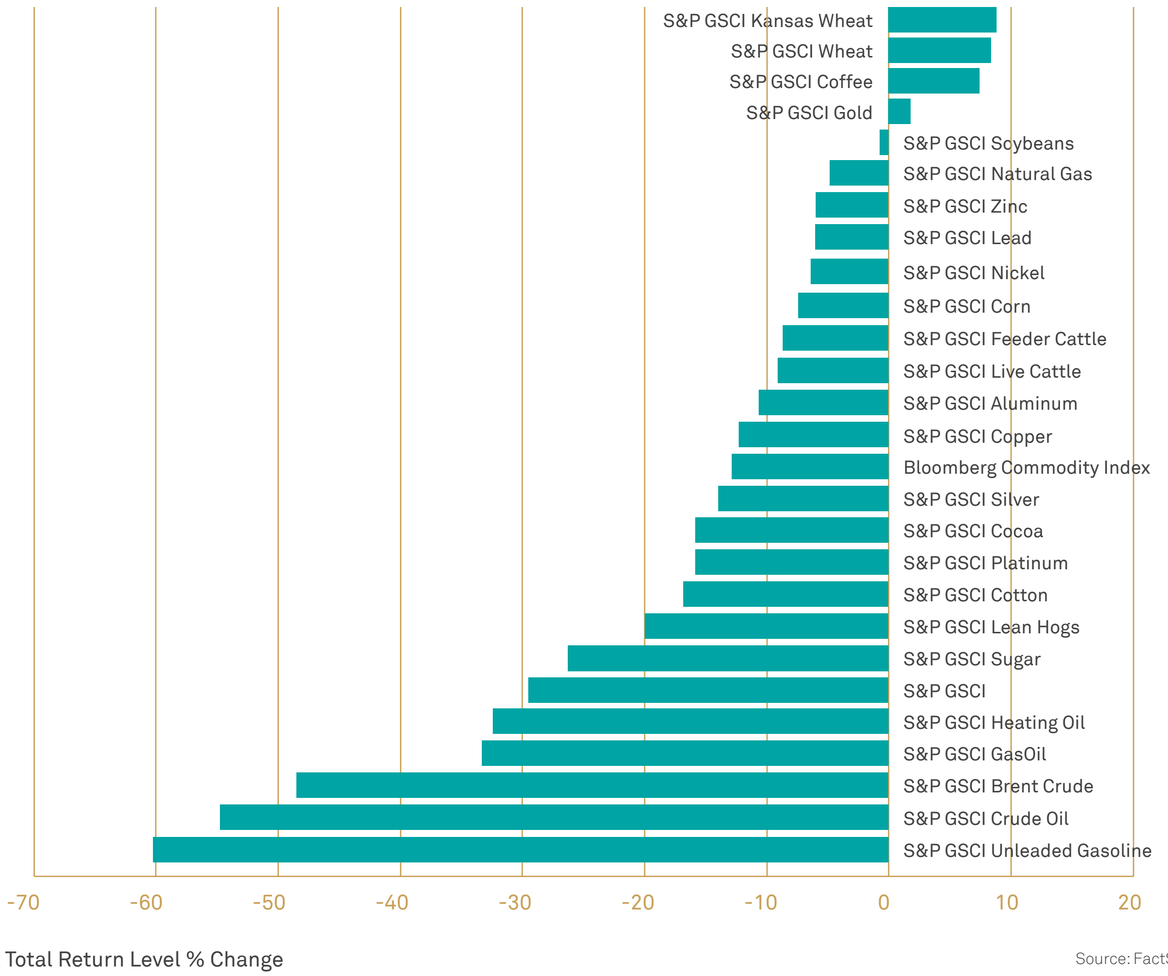


Source: FactSet

Commodities

- Commodity markets sold off aggressively in March, reflecting the risk-off market environment, expectations of lower demand and a Saudi-Russia price war, which sent oil prices to their lowest levels since 2002.
- The two headline indices, the Bloomberg Commodity and the S&P GSCI, returned -12.8% and -29.4% on a total return basis in US dollar terms over the month. In sterling terms, the returns were -10.2% and -27.3% respectively.
- As highlighted in previous months, the main driver of the performance differential is the S&P's higher weighting to the energy sub-sector, which was notably weak in March as oil prices tumbled. Conversely, the precious metals sub-sector was marginally positive in the month, with gold maintaining its 'safe haven' status amongst investors – despite experiencing price volatility as some investors scrambled for liquidity to cover other portfolio losses and positions.
- Overall, the first quarter of 2020 was very weak for commodity markets. The Bloomberg Commodity and the S&P GSCI returned -23.3% and -42.3% in US dollar terms and -18.0% and -38.4% in sterling terms.

Commodities Performance 1-31 March 2020

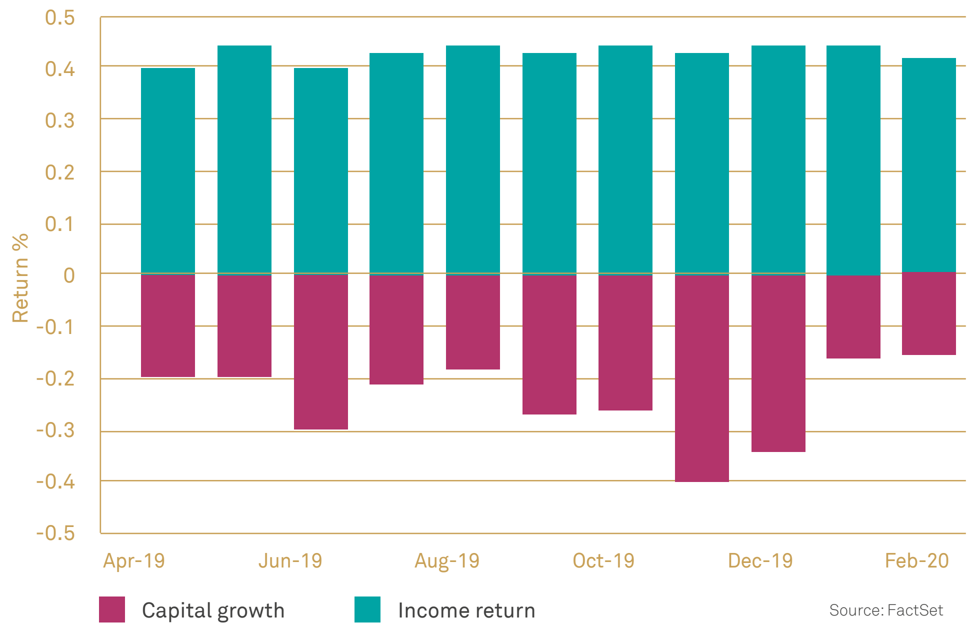


Source: FactSet

Property

- UK commercial property continued their recent form in February, with capital values (-0.2%) again falling at a lower monthly rate compared to the fourth quarter of 2019, but still detracting from the stable income returns (+0.4%).
- Given the data lag and broad economic shutdown in March, we could easily see weaker data next month. For example, a number of property REITs have already suspended their dividends and seen their share prices fall because of the lockdown and uncertain outlook, particularly for the retail sector. Meanwhile most open-ended property funds have again suspended dealing, citing the material uncertainty surrounding property valuations.

Monthly IPD Returns*



Source: FactSet

*Index data is released mid-month and therefore figures are only available with a one month lag.

Datasheet – latest market returns to the 31 March, percentage returns for major asset class indices.

	1 month	3 month	6 month	2019-20	2018-19	2017-18	2016-17	2015-16	3 Year	5 Year
MSCI United Kingdom TR	-13.4	-23.9	-22.2	-19.0	7.7	-0.2	23.6	-5.8	-13.0	1.3
Numis Smaller Companies TR	-26.3	-35.6	-27.1	-25.9	-1.2	5.2	18.8	4.2	-23.0	-4.7
MSCI USA TR	-10.1	-14.2	-12.9	-2.4	17.9	1.6	35.0	4.2	16.9	64.4
MSCI Europe ex UK TR	-11.2	-17.3	-16.5	-7.5	3.1	3.7	28.4	-4.6	-1.1	21.2
MSCI AC ASIA PACIFIC EX JAPAN TR	-11.4	-15.3	-12.8	-10.7	4.2	7.9	36.2	-8.4	0.4	25.2
MSCI Japan TR	-4.2	-10.9	-10.8	-1.5	-0.4	7.0	32.0	-3.7	4.9	33.3
MSCI Emerging Markets TR	-12.8	-18.3	-15.0	-13.2	0.1	11.8	35.2	-8.8	-2.9	19.8
Bloomberg Commodity TR	-10.2	-18.0	-20.4	-18.4	2.0	-7.6	25.0	-16.9	-23	-20.1
S&P GSCI TR	-27.3	-38.4	-37.9	-38.0	4.4	1.5	24.7	-26.3	-34.3	-39.7
ICE BofA Global High Yield TR	-10.2	-8.2	-11.7	-3.6	11.1	-4.9	30.8	2.5	1.8	36.5
ICE BofA Sterling Corporates TR	-6.9	-4.7	-5.1	0.9	4.0	1.4	10.6	0.2	6.4	17.9
UK Gilts All Stocks TR	1.4	6.3	2.2	9.9	3.7	0.5	6.6	3.2	14.5	26.1
US Dollar	3.0	6.8	-0.6	5.1	7.7	-10.9	14.9	3.3	0.8	19.7
Japanese Yen	2.9	7.6	-0.5	7.7	3.4	-6.6	15.9	10.2	4.1	33.0
Euro	2.9	4.4	0.0	2.7	-1.7	2.5	7.9	9.6	3.5	22.3

Source: Lipper (to 31 March in GBP. Currency movements are vs. sterling).

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Important information

The value of your investments, and the income derived from them, can go down as well as up, and you can get back less than you originally invested. Any indication of past performance or quoted yields is not an indicator of future returns. Before investing in funds, please check the specific risk factors on the key features document or refer to our risk warning notice, as some funds can be high-risk or complex, or can be susceptible to risks particular to the geographical area or industry sector in which they invest. Gold, technology and other focused funds can suffer as the underlying stocks can be more volatile and less liquid. Underlying investments in emerging markets are generally less well regulated than the UK. There is an increased chance of political and economic instability and the market(s) can be less liquid.

The property market can be illiquid; consequently, there can be times when investors will be unable to sell their holdings. Property valuations are subjective and a matter of judgement.

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