TPO Investment Market Update

All Eyes turn towards the US election and Brexit- but good news is out there too.

15 October 2020

With the US election and yet another Brexit deadline looming, markets are trying to evaluate the various outcomes. Historically, Republican victories (leadership aside) lead to greater market optimism, even if in the longer term the party of the White House incumbent has little impact. However, sentiment seems to be swinging towards Biden's Fiscal stimulus package which appears to have more give in it than the already stretched tax cut policy of Trump's regime. Either way, it seems that victory for either party will not be a negative for markets.

Brexit seems to be presenting more of a challenge to UK markets and sterling, with J P Morgan predicting that a no deal will see a fall in sterling's value of up to 10%. Conversely, a positive deal could see an increase of 5%. A 15% swing is an uncomfortable unknown. Apart from that, the strength of the UK banks is significantly higher than it was during the financial crisis of 2008. The Government continues to borrow at eyewatering volumes but, in truth, debt will be refinanced in the future and never paid off and at the cost of borrowing is next to nothing. Meanwhile, China appears to be forging ahead with some impressive growth figures.

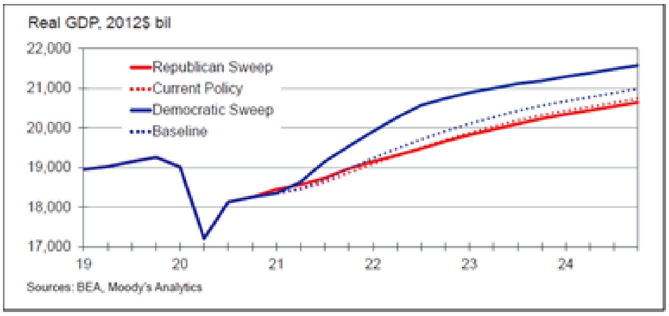


Figure 1. Real GDP Under Different Election Scenarios

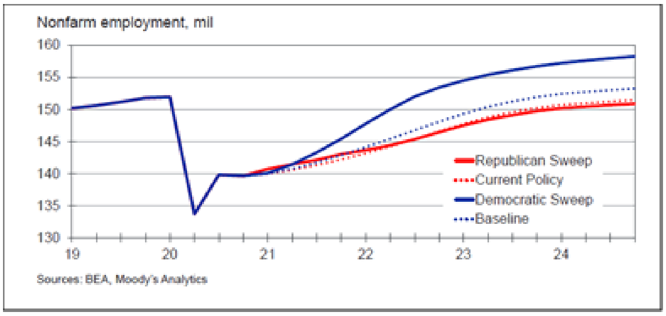


Figure 2. Jobs Under Different Election Scenarios

Economic and Political Data

The US

We've seen election uncertainty fall recently with the anticipation that presidential nominee Joe Biden will win next month's election and that the Democrats will take control of Congress. This has spurred equity markers in recent weeks as investors expect a more comprehensive fiscal stimulus package which would look to target the US's ailing public infrastructure, healthcare system and commit funds to combat climate change.

This is also expected to lead to a higher increase in real GDP (see Figure 1.) and an increase in the number of jobs (see Figure 2.) in the US over the next four years.

The question of when the next coronavirus stimulus package will come remains unanswered, but there is bipartisan consensus that a deal needs to be made but the devil (and who pays) is in the detail.
The confirmation hearing for the nomination of Amy Coney Barrett to the Supreme Court of Justice has begun and this is expected to be the most polarising and fractious Supreme Court nomination in history. This is in part to the potential impact on notable US legislation such as Roe v. Wade and the Affordable Care Act.

We urge you to stay safe and remember that your TPO advisers are here to guide you through this storm. If you have any questions or concerns, please do get in touch.

The value of investments can fall as well as rise. You may not get back what you invest.

Europe

In Europe we saw an increase in business activity following the reopening of economies – specifically we saw activity in France increase 16% following the 14% contraction we saw in Q2. Inflation though continues to fall in the eurozone with consumer prices falling in September to -0.3%. This is attributed to subdued economic activity as result of the coronavirus pandemic and continued headwinds to oil prices. Elena Burmistrova (the Director General at Gazprom) highlighted that they forecast the oil glut to continue well into 2021.

Expectations are that inflation will remain low as coronavirus cases across Germany, Italy and Spain continue to rise and that new lockdown measures are on the horizon.

Finally ECB Chief Economist Philip Lane gave a speech to the US National Association of Business economics where he highlighted that economic activity in Europe is expected to be 5% lower than the figure we saw in 2019 and that pre-pandemic activity levels will not be seen until the end of 2022.

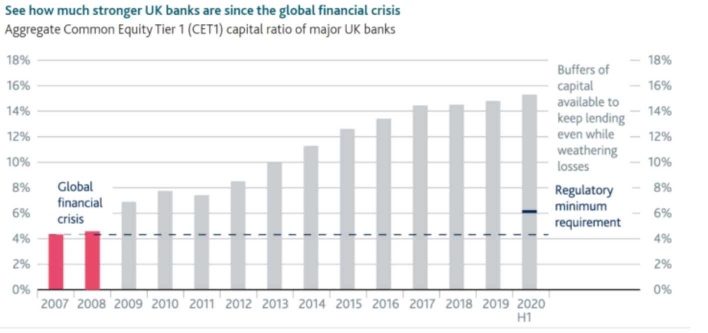
The UK

Chancellor Sunak announced an extension to the furlough scheme where from November 1st individuals unable to work as a result of coronavirus will receive 2/3 of their salary.

The BoE wrote to banks asking how prepared they were to deal with zero or negative interests. This was an escalation from Governor Andrew Bailey's previous communication where he informed banks that the BoE were exploring the use of negative interest rates. The deadline for banks to submit their responses is November 12 and one could speculate this is the BoE's way of assessing their 'tool kit' for any fallout due to Brexit.

The most recent UK GDP figure came in at 2.1% growth which was less than half of consensus estimates and well below July's reading of 6.6%. Only time will tell whether this is an anomaly and that GDP will rebound or that July's reading took into account the pent-up demand from the first lifting of lockdown measures and that any renewed lockdown measures will be a headwind to future GDP figures.

On the upside, a recent assessment of the health of UK banks showed that if the UK were to see an economic downturn worse than the one in March and that unemployment rose to 15%, the major UK banks would only lose 60% of their capital buffers. This is in part due to the capital requirements that were set out following the 2008 Financial Crisis and that UK banks are now materially more robust than in previous crises.



Source: BoE – Banking sector regulatory capital

China

The Chinese economy continues to grow with PMI data rising to 54.8 in September which is the fifth straight monthly increase.

The 19th Communist Party Congress will meet on 26 October where we expect to hear details regarding China's "dual circulation" development model. This model essentially involves transforming the Chinese economy from an export led economy to being domestically driven which is in part a reflection of the increasing wealth of the middle class in China. There may also be signs of this transformation as we saw imports increase by c.13% in September which is the first increase since June meanwhile exports continue to grow with a c.10% growth rate in the same month.

TPO Portfolios

The TPO portfolios have now shown positive returns consistently since the dark days of February and March.

In our Managed IV portfolio, only July has posted a negative return so far, and that only -0.36%. ESG IV has delivered positive returns in every month since March and our Passive range is delivering impressive returns at extremely low costs.

Now all eyes are on the US election (except for British eyes which are also on Brexit) and with so much uncertainty in the negotiations and the continued spectre of Coronavirus the key is to continue with well diversified portfolios with a long term view.

Our Investment commentary is not designed as specific individual advice, and should you have any questions or concerns please do contact your TPO adviser or contact us via the website, email or telephone. More information can be found at www.theprivateoffice.com.

This Market update is for general information only, does not constitute individual advice and should not be used to inform financial decisions. Most importantly, investment returns are not guaranteed, and you may get back less than originally invested; past performance is not a guide to future returns.