June 2020 quarter end review update

The table below sets out the opening and closing values of the FTSE All Share Index for the first two quarters of 2020, as well as the high and low points over each period.

Quarter	Open	Close	High	Low	Return year to date
January – March	4196	3107	4257	2727	-25.95%
April - June	3107	3410	3589	2958	-18.73%

The table shows in the first quarter the difference between the highest and lowest points was a fall of 35.94%. The same calculation in the second quarter reduced to 17.58%, which is half of that in the previous quarter. This highlights how quickly markets can adjust, and over that same period, the FTSE All Share Index made a positive return of 9.75%.

Where companies were able to satisfy the requirements for social distancing, staff were able to return to work, which is positive for economic activity. For the UK, this started in June, and from July the policies will continue to open up the economy following those countries who were already out of full lockdown. This is positive for the majority of sectors, but there remain question marks over other sectors such as leisure, including gyms, spas and sporting events which are taking place but without spectators.

In order to survive, companies around the globe have had to draw on cash facilities agreed with banks, and some have also issued corporate bonds which central banks have started to purchase, in order to keep cash within the business. This is important because, going forward, for the majority of businesses they are not going to have the same income flows as before Covid 19 for the time being. Where they don't have sufficient cash reserves to manage the shortfall, they will struggle. As an example, in the UK, Intu Properties Plc who own the Lakeside Shopping Centre amongst others has gone into administration.

Another consequence, as we have witnessed, is global dividends being reduced or stopped and analysts expect this to be between 15% and 35% this year which represents anything between $200bn and $500bn.

The majority of Western Governments were quick to react to provide all the necessary support to their economy and businesses, which included the furlough scheme. However, this was always a temporary measure, which will be withdrawn over the coming months. In the UK recent statistics show that 8.9 million people are furloughed, which represents 27% of the workforce. From August, employers will start to contribute to the scheme by paying staff pensions as well as National Insurance contributions with the scheme ending at the end of October. This will require all businesses to assess whether or not they have the financial means to continue to trade and, if so, whether this will be with the same staffing numbers. Unfortunately, we believe that businesses will continue to announce redundancies as being the only means of survival, which hopefully will only be for the short term.

Central banks around the world are doing whatever is necessary to provide the financial support and liquidity that markets need. Whilst this support will change as requirements dictate, it will not stop until we are through the other side of this pandemic. It is reassuring that a number of central banks have said that they will keep interest rates low for the foreseeable future and some governments, like in the UK, have said that they will not revert back to austerity measures but will instead look to stimulate growth.

In periods of significant uncertainty and change good companies are able to adapt to the new environment. These companies accept that the past in not necessarily a guide to the future. An example of this was a recent announcement by BP, which took the decision to write down $17bn of assets and to increase their focus away from fossil fuels to renewable energy.

In the current environment, where there is little by way of direction, we have not changed our current asset allocation views. However, if economic growth gains traction we would expect that sectors such as commodities and cyclicals, and regions like Europe and Emerging Markets may start to offer value.

Underweight	**Neutral**	**Overweight**
Index-linked Gilts: UK, US	Index-linked Gilts: Global High Yield Bonds (for income)	
Investment-Grade Bonds	Equities: China, Far East, Emerging Markets, Japan	Equities (large cap): Europe, Asia ex China
Equities (large cap): US	Equities (small cap): UK, US, Europe Equities (large cap): UK	Specialist Equities: e.g. Infrastructure, Agriculture
Property	Commodities	
Gold		

You will recall that we sent out a communication earlier this year regarding commercial property funds. Understandably, these funds remain closed in the current environment.

To all our clients, keep well and keep safe. Just to confirm that the office remains open, although we are still operating on a "one staff member in the office at a time" policy.

1st July 2020