DART CAPITAL

Market Commentary

July 2020

Virus update

The month saw a continued upswing in confirmed COVID cases globally, as outbreaks across the southern and western states of the US, South America and northern Asia amongst others provided a reminder that the virus is impossible to eliminate at this time. However, the market's reaction to the pick-up in cases has been more muted than many would expect, in large part because the rate of hospitalisations has been significantly lower than was experienced during the first outbreak in February and March with a greater proportion of the new cases being in younger people who are less likely to require hospital treatment. Furthermore, it is notable that the most significant outbreaks have occurred in those areas which were least affected in the first wave earlier in the year whilst cities, such as London and New York, which were hard hit during the first wave have seen a far smaller pick-up in new cases.

Market dynamics

The trends which dominated global stock markets through the second quarter remained firmly in place over July, with more highly valued "growth" companies outperforming more lowly valued stocks which are, in most cases, more exposed to the weakness in the global economy. This has been the starkest within the US market, with a number of the mega-cap technology companies, led by Apple and Amazon, beating analyst expectations with many of these businesses seeming to benefit from consumers being forced to stay-at-home and choosing to spend received stimulus cheques online. This stands in sharp contrast to the banking sector with the major US banks setting aside significant capital provisions for likely loans losses as more borrowers are expected to default on their loans.

Within the bond market, whilst government bond prices were broadly unmoved over the month, corporate bonds continued their recovery with the sterling corporate bond index gaining a further 1.7% over the month. With Central Banks continuing to buy corporate bonds through their asset purchase programmes, we see corporate credit as well supported in this environment.

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UK

Following the sharp decline in economic activity over March and April with the economy contracting by c. 20% during the latter when the lockdown was in full effect, data released by the Office for National Statistics (ONS) during the month showed that the UK economy grew 1.8% in the month of May as the economy staged its gradual reopening. With markets focusing on the speed and progress of the re-opening of the economy, the true level of unemployment across the economy remains a key question with the government's furlough scheme having temporarily masked much of the weakness in the labour market. In order to aid the transition away from the furlough scheme the Chancellor of the Exchequer, Rishi Sunak, announced in the emergency mini-budget the introduction of a job retention scheme which will see the government pay a £1000 bonus to businesses for each employee that is brought back from furlough and continuously employed until the end of January 2021. Alongside this, Sunak announced various other measures in order to alleviate pressure on the economy, from infrastructure spending to more unconventional measures such as meal vouchers which in total will cost the public purse an approximate £30 billion.

Over the month, Gilt yields continued to edge downwards with the yield on the 10 year Gilt declining 6 basis points to end the month at 0.11% as the BoE's Quantitative Easing (bond buying) programme and the weak near-term outlook for the global economy served to cap yields. In addition to the recently expanded QE programme, the BoE are also considering lowering the base rate, which currently sits at 0.10%, into negative territory in an attempt to further support the domestic economy. Whilst the effectiveness of negative interest rates is by no means clear with some economists of the view that the detrimental impact on savers and the negative signal the imposition of negative rates sends about the state of the economy outweigh any benefits, such measures have become increasingly common over the last decade with base rates in Japan and the Eurozone firmly in negative territory.

Aided by the broad based weakness of the US Dollar, the Pound gained 5.6% against the Greenback to end the month at $1.309. As measured by MSCI UK All-Cap, UK equities ended the month down 4.2% in capital return terms.

US

The preliminary reading for Q2 GDP indicated that the US economy contracted broadly in line with the market's expectations with output falling 33% on an annualised basis according to the initial estimate, largely owing to a collapse in the household consumption component which accounts for around two thirds of US economic output. That being said, personal income, which under normal circumstances can provide some indication of the performance of the economy, soared over the quarter, largely due to the c. $500bn in direct payments to households as part of the $2.2trn Coronavirus Aid, Relief, and Economic Security Act (CARES) act which was signed into law at the end of March.

Whilst government policy has remained exceptionally supportive of household finances, Congress are under pressure to finalise a second fiscal stimulus package which will either extend or revise the $600 weekly unemployment benefit which was introduced as part of the CARES act and expired at the end of July. Whilst a stalemate between Democrats and Republicans could push a new stimulus package to September it is likely that both parties will be keen to bring the electorate some positive news ahead of the Presidential election in November. Having rallied significantly in the market turmoil earlier this year, the US Dollar fell back over the month falling 4.1% on a trade-weighted basis. Spurred on by the weaker Dollar and the strength of technology stocks, the S&P 500 gained 5.5% in US Dollar terms.

Europe

Despite resistance from the so-called "Frugal 4" which is made up of the Netherlands, Sweden, Denmark and Austria, the EU were able to agree a €750 billion stimulus package, spearheaded by Chancellor Angela Merkel of Germany and French President Emmanuel Macron. The package includes €390bn in grants, which will not have to be paid back by the recipient, and €360bn in low interest loans. Importantly, European countries will raise the capital through issuing debt collectively rather than individually with significant amounts of the capital being spent in areas that have been hardest hit by the pandemic. This marks a significant change in the structure of the European Union which sees the currency bloc taking a step closer to a fiscal union, as opposed to just a monetary union.

The European commission will issue €750bn of bonds between now and 2026 via capital markets creating a large new pool of high quality European debt. Although European equities rallied on the expectation of the agreement of the stimulus package, their performance has since moderated with MSCI Europe ex-UK ending the month down 0.7% in local currency terms.

Asia

Having endured a painful first quarter at the hands of the Coronavirus-induced shutdown, China enjoyed a much stronger Q2 with the economy growing 11.5% according to data released over the month. Whilst official government data from China is usually viewed with some scepticism, importantly the data has been accompanied by reasonably strong survey data which has been collected from businesses. Chinese stocks enjoyed a strong month, bolstered by increased involvement from retail investors. MSCI China H gained 2.9% in local currency terms.

Commodities

The gold price continued its strong performance rallying over 10% in US Dollar terms over the month, with the precious metal bolstered by investors seeking alternative stores of value amidst concerns that Central Bank money printing will debase the value of currencies relative to hard assets over coming years.

Asset Class Performance – End July 2020 (in Sterling terms)

Asset Class	Dart Capital Position	1 Month	3 Months	12 Months	Index
Cash	↘	+0.01%	+0.03%	+0.50%	Bank Of England Base Rate in GBP
Fixed Interest	↗	+0.36%	0.00%	+8.86%	L&G All Stocks Gilt Index Trust I Inc in GBP
Equities – UK	↗	-4.17%	-0.16%	-22.26%	MSCI UK All Cap in GBP
Equities – International	↗	-0.87%	+8.82%	-0.69%	MSCI All Country World Index ex UK in GBP
Property	↘	+0.05%	-1.04%	-2.92%	FE UK Property Proxy in GBP
Alternatives	↘	+0.01%	+0.03%	+0.50%	Bank of England Base Rate in GBP

Benchmarks are capital return which excludes income
Month to 31 July 2020
All performance data supplied by Financial Express Analytics
Dart Capital positions based on Dart Capital mid risk strategy

↗ Overweight
→ Neutral
↘ Underweight