THOMAS MILLER INVESTMENT

Investment Commentary

September 2020

Recent economic developments

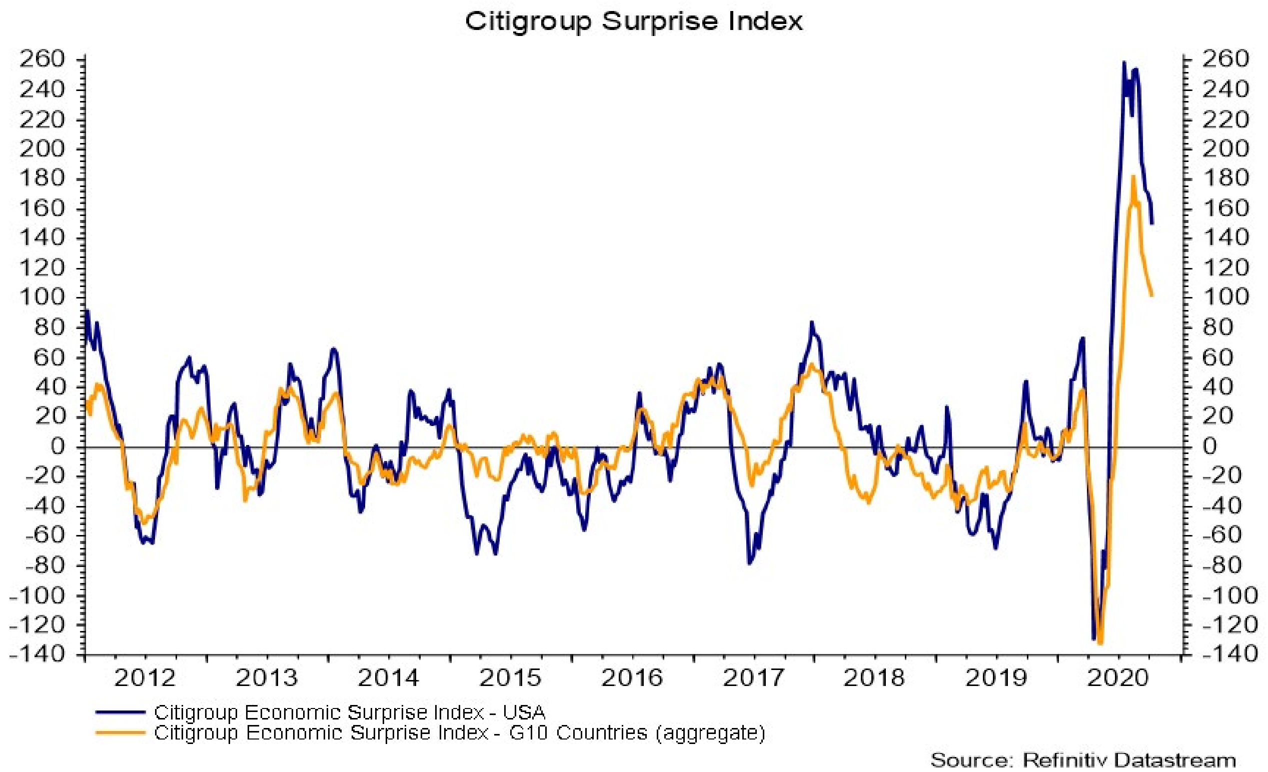
■ Recent economic reports show that while the global economy continues to recover from the sharp contractions in activity recorded in the second quarter of 2020, the pace of growth has slowed in recent weeks. The Citigroup Economic Surprise Index (which tracks the deviation of economic data from market consensus forecasts) provides a clear illustration of the moderation in the pace of economic activity. As the index shows, following a period of much better than expected economic reports, recent releases have, on balance, been somewhat weaker than consensus forecasts.

■ In the chart, positive [negative] readings of the index indicate that economic releases have typically been stronger [weaker] than consensus forecasts. As the chart shows the recent trend of weaker than expected data holds across the G10 economies.

■ In the US, the evidence from the labour market has been mixed in recent weeks. In September 661,000 new jobs were created (fewer than consensus forecast) and the unemployment rate fell to 7.9%. That marked the fifth consecutive month of job gains since the economy lost more than 22 million jobs in March and April. The additions in September mean that the US economy has regained about half of the jobs that it lost as a result of the Covid-19 recession.

■ Looking ahead, while the Covid-19 outbreak continues to disrupt economic activity, we expect that the recovery will remain heavily dependent on policy stimulus — hence the immediate outlook for the US economy depends on the outcome of ongoing debates about further fiscal stimulus. There is a clear risk that a premature end to fiscal policy support could undermine the economic outlook.

Chart 1: Following an extended period of strong performance, economic data has underperformed consensus expectations in recent weeks



■ In the UK, recently published data showed that the economy grew by 2.1% in August. While that marked a continuation of the economic recovery it reflected a notable slowdown from the growth rates of 8.7% and 6.6% recorded in June and July respectively. Data from the Office for National Statistics (ONS) also showed that compared to the previous three months, the UK economy grew by 8% in the three months to the end of August. Overall, UK GDP was still about 9.2% below its pre-Covid February level in August.

■ The underlying weakness in UK economic activity has concerned investors and analysts, particularly as it came at a time when there were few social restrictions and consumer spending was boosted by the 'Eat Out to Help Out' scheme. This raises questions about the durability of the recovery in the months ahead.

■ Financial markets reacted to news of waning growth momentum with a pullback from the highs set in late August. In the equity markets, the US S&P 500 index's streak of five consecutive monthly advances ended in September with a performance of -3.8% (local currency, total return). That left the index up 8.9% for the third quarter as a whole. European equity markets fared much worse, with returns of 0.7% and -4.0% (local currency, total return) for the DJ Euro Stoxx 600 and FTSE 100 indices respectively over Q3.

■ In the fixed income markets, corporate bonds had a mixed month but a positive quarter overall, with high yield bonds lagging over the month but leading over the quarter. Government bonds strengthened in September to round out a moderately positive quarter. Commodity markets also delivered mixed performance in September although they enjoyed strong gains over the third quarter. In the FX markets, in September the US Dollar (USD) recovered some of the ground it had lost against other major currencies in recent months. Over Q3, sterling and Euro gained about 4.2% and 4.3% against the USD respectively. Sterling was flat against the Euro over the quarter. At this point, risks around ongoing Brexit trade negotiations remain the primary determinant of the short term outlook for sterling, and any positive outcome could fuel a sharp move higher (and vice versa).

■ In terms of asset allocation, while the combination of ongoing economic recovery and supportive policy backdrop leads us to be optimistic on the outlook over the next 6-12 months, we believe that it is prudent to limit active risk in the run up to the US presidential elections in a few weeks. Consequently, client portfolios are currently positioned in line with their respective strategic asset allocation benchmarks.

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