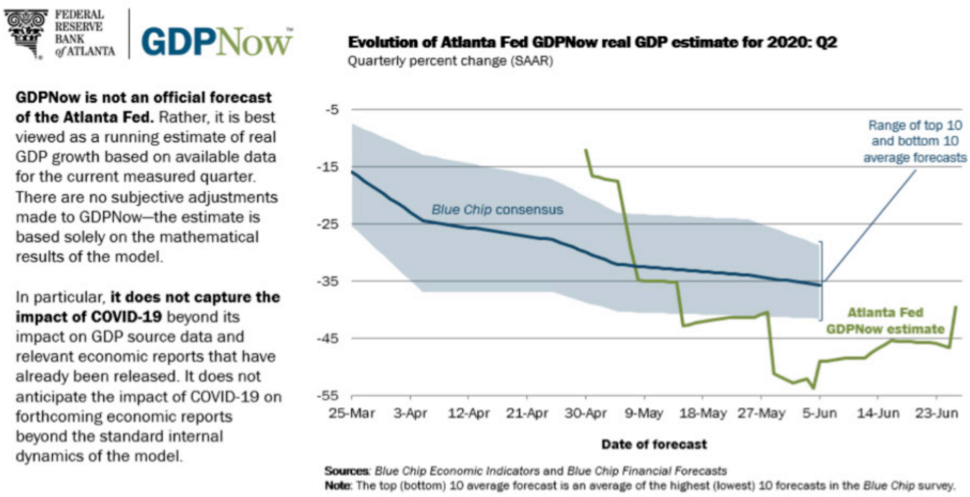
Equity markets outpace expectations of economic recovery

Stock markets continued to claw back their March losses during June as more than 75% of countries began reopening their economies. Towards quarter end, however, investors began withdrawing from equity markets as Brazil, India and several US states experienced steep increases in infection rates while Iran also suffered a rebound in infections.

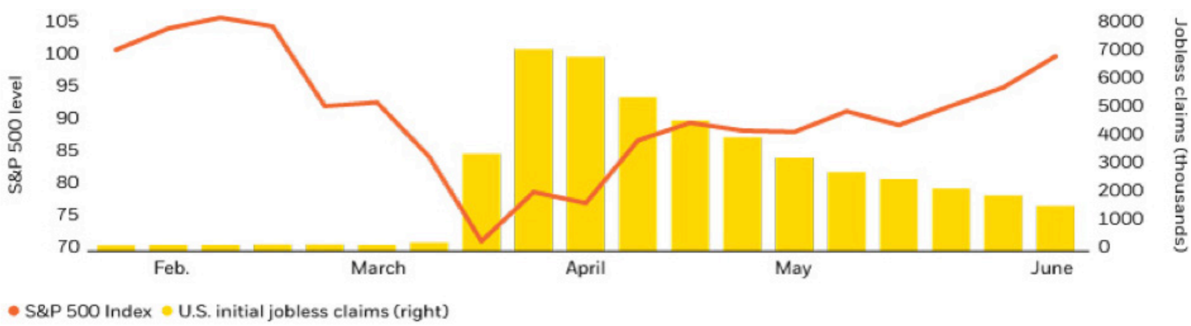
Prior to these outbreaks, a combination of some better-than-expected economic data in the US and the significant tailwinds provided by the massive monetary and fiscal stimuluses introduced worldwide had helped the S&P 500 recover to within 5% of its February high.

Looking forward, the outlook for the real economy remains uncertain with growth forecasts still dismal and downside risks prevalent. The International Monetary Fund predicts the global economy will contract by 4.9% in 2020 which, for context, compares with a contraction of under 1% in the recession of 2008. It also forecasts a cumulative loss to the global economy from the crisis in 2020 and 2021 of $12tn.

US real GDP contracted by 5% in Q1 and in the second quarter will move deeper into negative territory. Forecasts are changing regularly, with the consensus forecasted drop -35%. The Atlanta Fed's GDPNow growth tracker predicts a decline of 39.5% (albeit recently increased because of a raised Q2 personal consumption expenditure estimate).



The IMF warned of excessive risk-taking in markets. The suspicion is that the market has moved too far, too fast and that the reduction in US jobless claims has been fully priced into US valuations. S&P 500 Index performance and U.S. jobless claims, 2020



Source: BlackRock Investment Institute, with data from Refinitiv Datastream, June 2020. Jobless claims are weekly from Jan. 31-June 5, 2020. S&P 500 level rebased to 100 as of Jan. 31, 2020.

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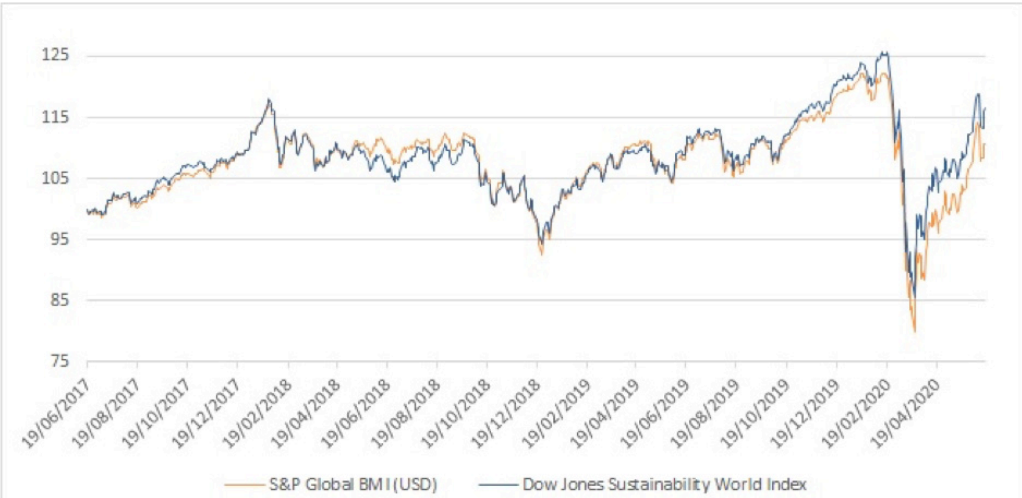
European economies continue to reopen on diminishing virus numbers. The bias of European equities to financials and cyclically sensitive sectors - such as industrials, materials and energy - gives it the potential to outperform in the second phase of the recovery despite Brexit uncertainty.

China's recovery from the COVID-19 crisis continued during the second quarter as the services sector began to catch up to the gains made in the manufacturing sector on the back of additional stimulus measures.

Sustainable investments moved to the top of the agenda

The outperformance of sustainable investments continued, with inflows into investments that prioritise environmental, social and governance (ESG) considerations. The graph below shows the material outperformance of the Dow Jones Sustainability World Index versus the S&P Global BMI during the second quarter equity market rebound.

Figure 1: Dow Jones Sustainability World Index vs. S&P Global BMI - 3 Year



Source: S&P Dow Jones Indices LLC, data as of June 17, 2020
The launch date of the S&P Global BMI (USD) was December 31, 1992.The launch date of the Dow Jones Sustainability World Index was September 8, 1999. All information presented prior to the index launch date is back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. Past performance is not an indication or guarantee of future results. Please see the Performance Disclosure at http://www.spindices.com/regulatory-affairs-disclaimers/ for more information regarding the inherent limitations associated with back-tested performance.

Recent events have highlighted the benefits of ESG screening in identifying sources of company resilience that go undetected in traditional financial analysis, pinpointing the companies better prepared for future risks and fat tail events. Many believe that the pandemic may prove to have a lasting impact on investor demand for ESG investing, with investors sensitive to companies' vulnerability to systemic risks resulting from weaknesses such as poor human capital and corporate governance.

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UBS has highlighted that that corporate management of issues such as human rights, employee wellbeing and community relations are under increased scrutiny as elements once considered luxuries (e.g. flexible working models) have become critical business continuity mechanisms during the pandemic lockdown. Investors are using their influence to drive behavioural changes and we continue to incorporate an assessment of wider business sustainability in our investment decisions.

Increase in exposure to genomics

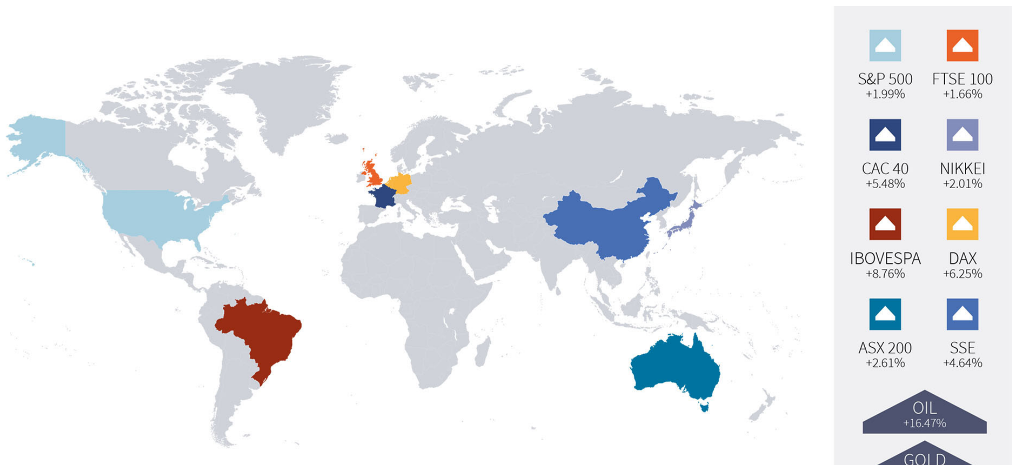
Rather than increase risk exposure, our focus remains on targeting assets set to benefit from a continuation of the disruption caused by the pandemic. The coronavirus has heightened awareness of latent health and infection risks – leading to a spike in demand to identify, contain and cure similar outbreaks much faster in future. Key to medical advances in treating coronaviruses and other diseases is the confluence of technology and healthcare with gene therapies and gene editing techniques.

As a result, we are slightly increasing diversified exposure to companies that will substantially benefit from extending the duration and/or quality of human life by incorporating technological/scientific advancements in genomics into their business through developing, producing or enabling:

- CRISPR (genome editing tool)
- Targeted therapeutics
- Bioinformatics
- Molecular diagnostics
- Stem cells

As genome therapy costs decline and the speed of gene editing/sequencing speeds up, huge strides in precision medical treatment to counteract disease is expected. With more sophisticated diagnostics and rapid gene-editing, we can expect far more customised health care. We have, therefore, increased exposure to companies such as Allogene Therapeutics, Seattle Genetics and Genmab.

GLOBAL MARKET RETURNS
JUNE 2020



Source: Morningstar Direct. Figures quoted are in local market currency on a total return basis.

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