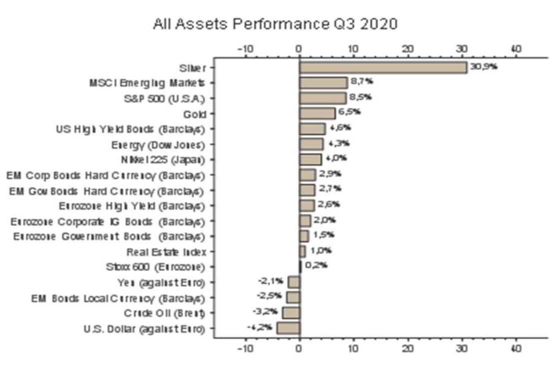
Performance review for the third quarter of 2020, by asset class

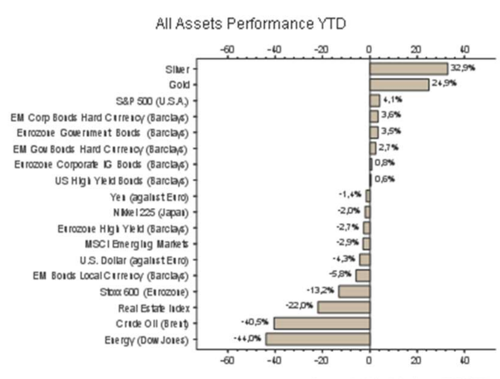
12 October 2020

A third quarter that brings its first lot of encouraging news

AT A GLANCE

- Most equities rebounded well during the third quarter, and were recovering from the economic lockdown caused by the virus. Emerging Asia and US equities were particularly strong performers, while European equities were further behind.
- Concerning currencies, the euro saw a comeback, strengthening by 4.3% against the dollar. This was the best performance for the EURUSD since Q2 2017. This also led to a positive performance of the euro against the dollar since the beginning of the year.
- Most commodities performed well, especially safe havens such as gold and silver. On the other hand, oil prices continued to decline. Over the year, precious metals, and to a lesser extent, industrial metals have continued to post a positive performance.
- The performance of alternative investments was generally positive, as the recovery from the March shock continued. The performance remains negative over the year. Real estate assets saw quite a modest rebound after the sharp fall during the COVID-19 crisis.





Equity markets

Equity markets recorded quite different performances. Using a global equity index, the MSCI World recorded a performance in the third quarter of 7.5% (in USD terms). After being largely impacted by the Covid-19, global equities experienced an impressive rebound.

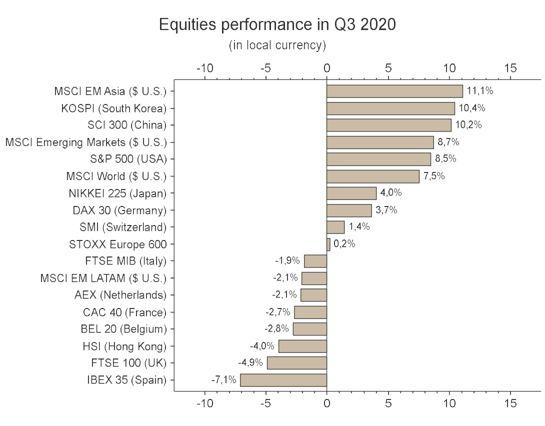
In the US, the S&P500 index increased by 8.5% over the third quarter but US equities fell back in September with a -3.8% for the S&P500 and the NASDAQ falling -5.1%. However, in relative terms, they were among the best performers that month thanks to US technology stocks. The "Awesome 8" stocks (Amazon, Apple, Facebook, Google, Microsoft, Netflix, Nvidia and Tesla) jumped by 59% since the beginning of the year. Equity markets seem to be ignoring the intensifying tensions between the United States and China, and are supported by the massive monetary and fiscal stimulus measures.

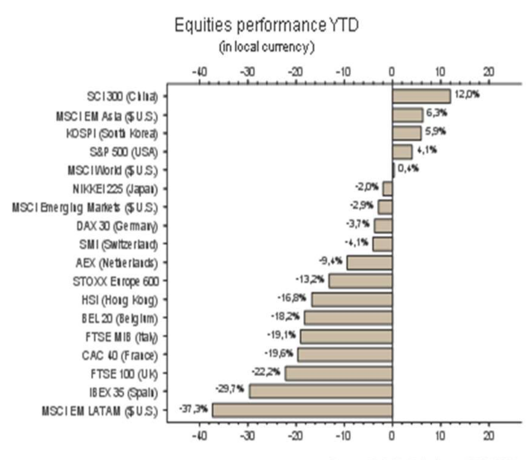
In Europe, the STOXX 600 was almost unchanged over the third quarter (-0.2%), mainly driven by the weak performance from three markets: Spain (IBEX35), Belgium (BEL 20) and France (CAC40), respectively down -7.1%, -2.8% and -2.7%. The performance of the German market helped to compensate these negative returns and was the best European performer with a return of 3.7% over the quarter.

The increasing probability of a no-deal Brexit seems to have affected the FTSE100 for the UK, which fell by -4.9% over the period.

The Nikkei 225 index and the KOSPI, on the other hand, performed well with a performance of +4% and +10.4% respectively in Q3. Asia was hit by the virus earlier than Europe and the US, and economies recovered earlier and more vigorously.

The performance of emerging markets is very differentiated. The MSCI Emerging Markets (in USD) rose +8.7%. The MSCI EM LATAM (in USD) showed a negative performance with -2.1%, notably pulled down by Brazil, which is the world's third most-affected country by the virus (more than 5 million cases). MSCI EM Asian USD) performed very well this quarter with +11.1%, led by China, which appeared to be the most resilient economy to the virus. China is expected to be the only major country to have positive GDP growth in 2020 and the stock market (SCI30) delivered a performance of 10.2% last quarter.





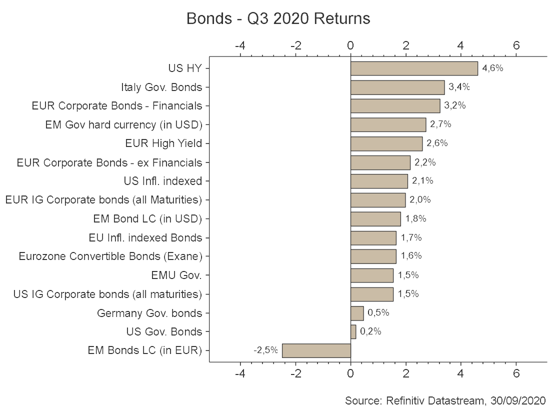
Bond markets

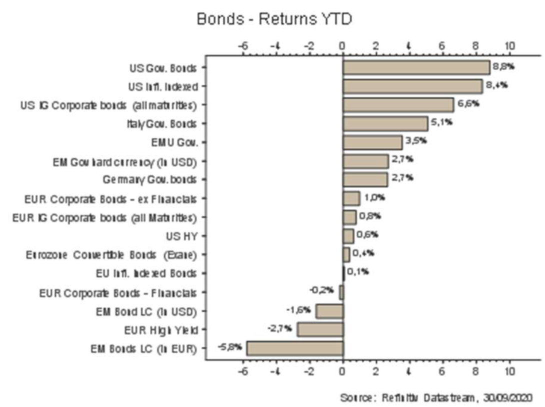
Fixed-income assets returns were positive on average in the third quarter, with an outperformance of risk assets thanks to government stimulus and central banks' intervention to suppress volatility. US and German government bond yields were little changed, allowing sovereign bonds to deliver slightly positive returns, +0.2% and +0.5% respectively. The ECB continued its policy to prevent the fragmentation of the eurozone. Spreads to Bunds tightened in response, allowing semi-core bonds like French government bonds to gain 1.1% and periphery bonds to gain about 1.6% for Portuguese, Spanish and Greek government bonds. Italian government outperformed thanks to political stability in some regional elections and returned 3.4%. Inflation-linked bonds delivered better returns than nominal bonds in the US (3.0% vs 0.2%) and broadly similar returns in the eurozone (1.7% vs 1.5%).

The risk-on sentiment prevailed in Corporate bonds. High Yield bonds were up 4.6% in the US and 2.6% in the eurozone, while Investment Grade bonds returned 1.5% and 2.0% respectively. The lower part of US High Yield (CCCs) delivered stunning returns (+7.3%). In the eurozone, subordinated bonds (+1.9%) outperformed senior bonds (1.5%).

In the emerging space, government hard currency bonds gained 2.7%, driven by the fall of US real yields. Local bonds were strongly impacted by the exchange rate, as they returned -2.5% in EUR and +1.8% in USD.

Convertibles bonds in the eurozone benefited from the spread tightening and the slight increase in equity markets and gained 1.6%.





Forex markets

EUR/USD

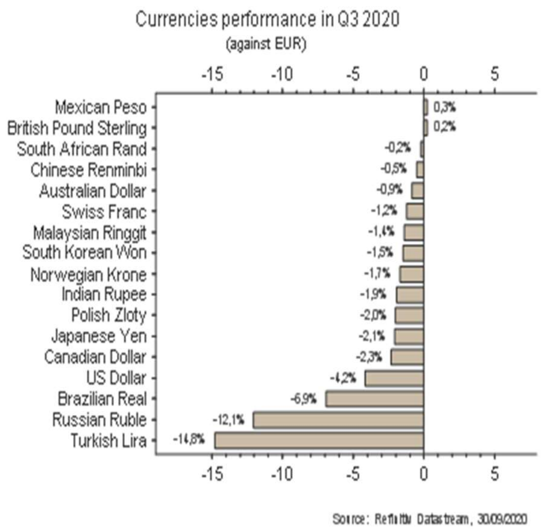
The euro recorded a strong rebound against the dollar from around 1.12 at the beginning of July to 1.17 at the end of September, and outperformed the dollar by 4.3% in Q3. The surge of uncertainty helped the dollar to regain some ground in September. The second wave of the virus in Europe, where numerous governments took more restrictive measures, fuelled the risk-off sentiment. Nevertheless, the likely improvement of risk sentiment should be unfavourable for the US dollar in the near term.

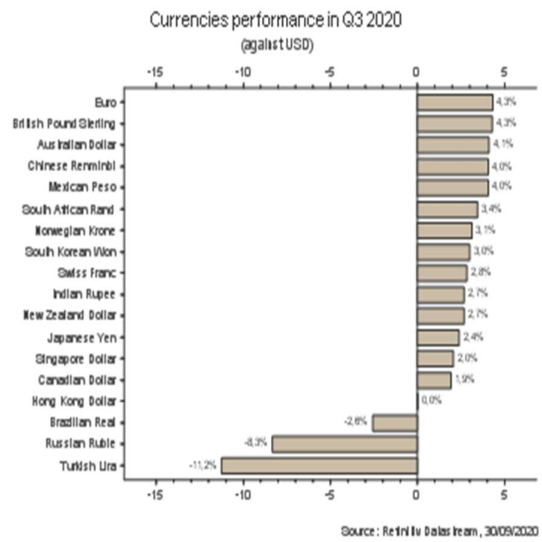
EUR/GBP

The British pound suffered from the latest Brexit developments, which have increased the chances of a no-deal Brexit and Sterling edged up only 0.2% against the euro in Q3 and hovered at around 0.91 at the end of the quarter. In Q1, the GBP strongly declined against a backdrop of the emergence of the pandemic in Europe. The sterling fell back by 4.2%. In Q2, the GBP kept underperforming the euro while the UK entered a national lockdown, and Brexit negotiations were back on the table. Sterling continued to decline and lost 2.7% against the euro.

USD/JPY

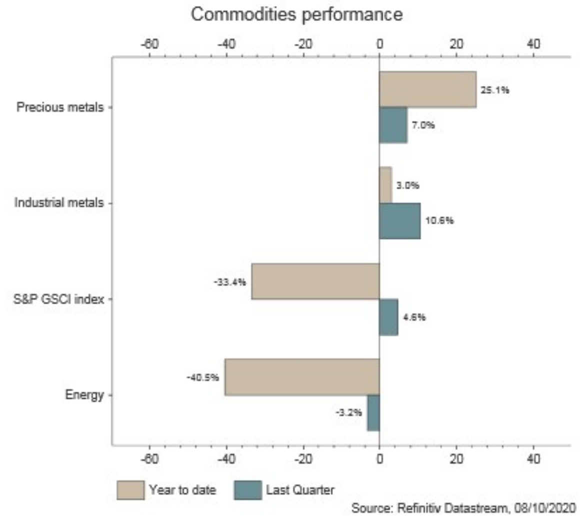
The Japanese Yen rose by 2.4% against the dollar in Q3 mainly due to the weakening dollar. Moreover, as a safe-haven currency, the yen benefitted from prolonged uncertainty related to trade tensions and the emergence of the virus. Recently, Prime Minister Abe stepped down due to health issues and Yoshihide Suga, 71, was elected. Although the immediate impact on the yen was positive, we do not expect any major changes in monetary policy given the huge expansion of public debt and the difficulty escaping from Japan's low growth and low-inflation environment.





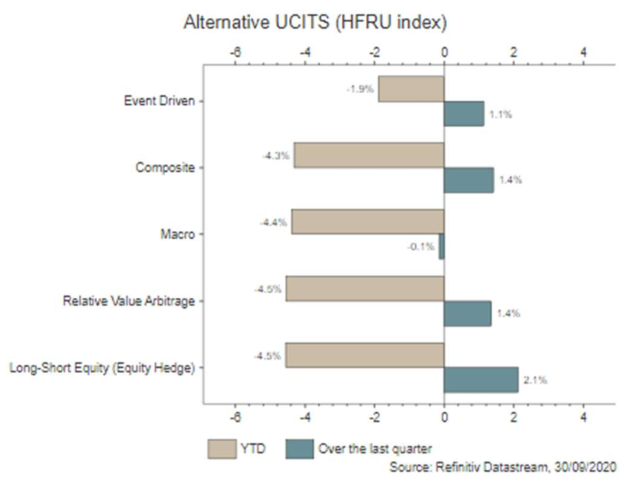
Commodities:

The performance of the Brent was relatively very weak this quarter with -3.2% (-40.5% this year). This performance can be explained by the increase of the OPEC+ production, fears of more lockdowns, supply fears as Libya could resume its exports and other temporary factors. To reflect this drop in prices, the number of active drilling rigs in the US remained at 183 in September against 713 just a year earlier, and 880 on 31 December 2018. Gold fell back to \$1850/oz at the end of September but still recorded a 6.5% increase for the third quarter and an incredible +24% this year. Gold was seen as a hedge against the long-term effects of massive "money printing" and political tensions. Precious metals outperformed gold with +7% in Q3, largely helped by the outperformance of silver. Indeed silver returned 30.9% in Q3, supported by the strong demand for precious metals and the central bank stimulus. But, even though silver outperformed the market in Q3, it fell back by-17.4% in September. Industrial metals performed very positively with a 10.6% increase over the third quarter. Industrial metals benefited from the rebound in Chinese industrial production, China being the leading buyer. Supply disruptions also drove up prices. Within this category, copper was one of top performers with an 11.8% increase over the quarter.



Alternative investments

Alternative investments enjoyed a positive third quarter with the Hedge Fund Composite index up by 1.4%. Long/short equity was the best-performing strategy within alternative investments with a 2.1% increase over the third quarter, as equity markets were positive, and growth stocks once again outpaced value stocks. Relative value strategies also continued to do well and recorded a positive performance of 1.4%, as credit spreads continued to normalize, with lower rated credits outperforming better quality paper, and convertible arbitrage once again a top performer. Event-driven strategies increased by 1.1% and their gains came from directional strategies (Activism, Distressed), while M&A arbitrage was more mixed with few new deals, and a mix of good and less favourable developments in outstanding deals. The Macro strategy was the weakest performer within alternative investments with a marginal loss of -0.1%.

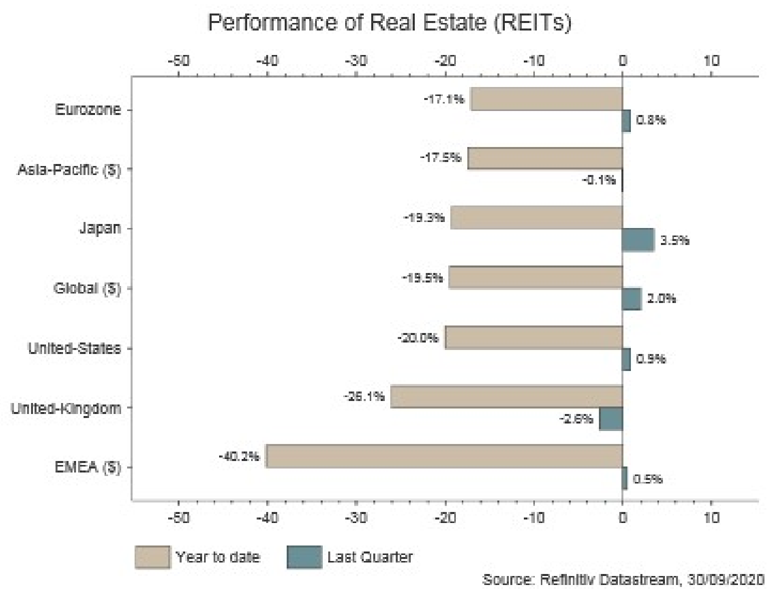


Real Estate

Prices of commercial Real Estate Investment Trusts (REITs) displayed a mixed performance over the third quarter. The global index posted a positive performance of +2%. Although rental income was under pressure in many real estate segments, the impact of Covid-19 on property values is currently much more difficult to assess.

Japan REITs concluded the third quarter with the best performance within real estate regions, at +3.5%. The US and eurozone REITS posted a less impressive performance in the third quarter at +0.9% and +0.8% respectively. EMEA REITs put in a moderate performance with only 0.5%. Asia Pacific REITs had a negative performance of -0.1%.

United Kingdom REITs were the weakest performer within the covered REITs universe with a return of -2.6%. Beyond concerns about the virus, the increasing probability of a no-deal Brexit seems to have particularly affected real estate in the UK.



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