Global Monthly Outlook

July 2020 (covering June 2020)

Index	June (%)	YTD (%)
MSCI World	USD 2.7	-5.5
S&P 500	USD 2.0	-3.1
MSCI Europe	EUR 3.1	-12.5
MSCI Asia Pac ex Japan	USD 8.2	-6.0
Hong Kong Hang Seng	HKD 7.4	-11.9
Hang Seng China Enterprises (H-shares)	HKD 3.5	-10.9
Topix	JPY -0.2	-8.2

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as of June 30, 2020. YTD refers to year-to-date.

Global Outlook

Global equity markets continue to take solace from the fact that governments and central banks appear to be working together to alleviate the impact of the virus-inspired recession and support ailing economies.

Despite the recovery in markets, the world feels like a fragile place. In the face of what is the deepest global recession in living memory, equity markets continue to run higher. The focus seems to be on policy support and improved economic momentum, yet earnings seemed destined to disappoint.

United States

- The US economy is finding its footing after months of lockdown provided lift to local equity markets, enabling the S&P500 Index to record its biggest quarterly gain since 1998. In terms of sector performance, it was another strong month for technology stocks.
- We worry about the recent rise in infection rates, which could provide further headwinds for the US economy. Given these and other challenges facing the US economy in the second half of the year, we believe it is critical that the government continues to provide fiscal stimulus.

Europe (including UK)

- European and UK equity markets rallied in June. The rally was led by improving macro data and investors bet on a rapid rebound from the coronavirus crisis following a massive wave of support from central banks around the world. Cyclical sector was the best performer, followed by Information Technology and Industrials.
- In our view, visibility on the shape of the initial stage of the economic recovery in the eurozone (EZ) is low, due to the importance of the travel and tourism sector in many large EZ economies, both in GDP and employment. We would expect greater visibility on the shape of the recovery after the summer ends.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equities ended in positive territory as investors cheered for better-than-expected economic data with further relaxation in lockdown measures. Relation between China and the US was relatively calm, also contributing to this strong risk-on sentiment.
- We believe market volatility will likely remain heightened until a resolution is found to stop further waves of infections and growth recovery path is uneven across countries. The renewed US-China tension will likely be a recurrent theme given upcoming election. We continue to focus on long-term structural trends in Asia.

Hong Kong and Mainland China (H-shares)

- Chinese and Hong Kong recovered in June and delivered strong performance. Information technology was the best performing sector, led by semiconductor stocks.
- We are optimistic about the gradual pace of recovery from the second quarter onwards. We believe China will be one of the few economies globally that can deliver positive growth this year. In Hong Kong, the economies have announced relief measures to combat growth headwinds, which should help support growth expectations.

Japan

- Japan's equity market was marginally down after a volatile month. Sentiment suffered from rising market concerns about a second wave outbreak, following an increase in the number of new infections in the US and in Tokyo, and a fall in expectations for economic recovery.
- We expect that an economic recovery under the "new lifestyle" is likely to continue in the coming months. Large-scale fiscal stimulus through two rounds of supplementary budgets, is likely to support economic growth.

Fixed Income

- Despite some signs of a re-escalation of the COVID-19 virus, corporate bond markets continued to recover from the lows reached in late March. At an index level, investment grade corporate bonds outperformed high yield. Core government bond returns were, however, relatively flat with Gilts delivering a negative return.
- The global economic recovery is in its initial stages and that that progress will be slow and uneven. Looking ahead, fixed income may offer limited value but will remain to be safe assets during current period of uncertainty.

Emerging Markets

- Emerging markets equities continued their recovery for the third consecutive month with the asset class recording its best quarterly performance in nearly 11 years. Supported by monetary and fiscal support from governments and central banks, June's advance was led by Asia, followed by Latin America.
- We believe that valuations in emerging equity markets are relatively attractive, trading at a discount to their peers in the developed world, with selective long-term stock picking opportunities remaining, particularly in Asia.

From the perspective of Hong Kong pension investing. All data are sourced from Invesco dated July 16, 2020, unless otherwise stated.

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