Global Monthly Outlook

August 2020 (covering July 2020)

Index	July (%)	YTD (%)
MSCI World	USD 4.8	-0.9
S&P 500	USD 5.6	2.4
MSCI Europe	EUR -1.3	-13.7
MSCI Asia Pac ex Japan	USD 8.0	1.5
Hong Kong Hang Seng	HKD 1.5	-10.6
Hang Seng China Enterprises (H-shares)	HKD 4.3	-7.1
Topix	JPY -4.0	-11.9

Source: Thomson Reuters Datastream, total returns in local currency unless otherwise stated. Data as of July 31, 2020. YTD refers to year-to-date.

Global Outlook

In July, global equity markets were lifted higher by US stocks, particularly technology companies, which diverged from other markets where returns were more mixed. Elsewhere, concerns about a second wave of Covid-19 and rising trade tensions between the US and China weighed on sentiment with both UK and European indices falling back.

The pick-up in infections may slow the rate of recovery in the second half of the year and make the growth path more uncertain, especially in the US.

United States

- The coronavirus pandemic led to the worst GDP slump in American history with the economy shrinking at an annualised rate of 32.9% in the second quarter. However, equity markets advance due to a further rally in technology stocks.
- While US economic activity is expected to pick up in the third quarter, many states have had to pause or roll back reopening plans to deal with new coronavirus cases. Which could provide further headwinds for the US economy.

Europe (including UK)

- European and UK equity markets retreated over the month as the second quarter earnings season kicked off and weak earnings weighed on sentiment. Markets were further rattled by rising tensions between the US and China.
- European governments agreed a joint €750 billion Eurozone recovery fund. The agreement provides support a solid recovery for the economy.

Asia Pacific (ex Hong Kong ex China ex Japan)

- Asian equity market performance was positive over the month amid robust tech earnings releases, progress on vaccine development and hopes of fresh stimulus from governments and central banks.
- Our preference for North Asia remains unchanged. In South Korea and Taiwan, we are positive towards their technology capabilities. We remained concerned about other parts of Asia. Confirmed cases continued to be on the rise in India, Indonesia and Philippines, posing challenges to short-term economic prospect.

Hong Kong and Mainland China (H-shares)

- Chinese market delivered strong performance in July. Despite some small localized outbreaks, the COVID-19 situation was largely under control across the nation. Hong Kong market finished lower. There has been a resurgence in infected cases in the territory and the local authority has tightened lockdown measures, causing concerns over its growth prospect.
- Our long-held convictions on Chinese equities remain unchanged. We believe its economy will continue to recover as business activities further normalize. In Hong Kong, the recent resurgence in confirmed cases concerns investors, but we are confident in its government's capabilities in managing the situation.

Japan

- Japan's equity market was down after a volatile month as the Covid-19 infection rate continued to rise leading to growing uncertainty. The reporting season began this month and, so far, a higher percentage of companies have reported positive surprises than negative.
- We believe that the largest-ever stimulus package coupled with pent-up demand should eventually reboot economic and corporate activity after the crisis for the coming quarters.

Fixed Income

- July was another strong month for bond markets. Concerns about an increase in the pace of Covid-19 infection rates in some regions were countered by rising hopes of a vaccine following successful early trials.
- Easier financial conditions should support global interest rates, but this expectation is largely priced into markets, in our view. We do not expect upward pressure on bond yields in the near term. Valuations are tight and the policy impetus that has driven the market recovery is slowing.

Emerging Markets

- Global emerging equity markets continued their recent strong run by extending the rally. In terms of regional performance, Latin America came top, followed closely by Asia. Taiwan recorded its best monthly returns in more than a decade, driven higher by the strong performance of technology stocks.
- While growth forecasts have declined around the world, the abundant liquidity provided by central banks and the fiscal response by governments have been the drivers for asset prices so far. We expect these extraordinary measures to continue, which should further support EM asset prices.

From the perspective of Hong Kong pension investing. All data are sourced from Invesco dated August 18, 2020, unless otherwise stated.

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