

LGT Vestra Snapshot: Markets rally forth 07.10.2020



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7th October 2020

"Don't let it dominate your life" tweeted President Trump, as he walked out of hospital unassisted on Monday afternoon following his fleeting battle with coronavirus. Perhaps a surprising assertion to be addressed to a nation still under the grip of the pandemic, but one which seems more aligned with the sentiment of markets.

Last week we discussed the significant gains made through the U.S. equity market over the past five months. With the President's prompt recovery this week, and lawmakers moving to provide further stimulus, the U.S. Treasury yields have risen since edging lower, and the dollar has weakened. On Monday, we witnessed the S&P 500's largest rise in almost four weeks, contrary to the earlier decline in the tech-heavy Nasdaq index. We believe this indicates positive signs of diversification from an investor's standpoint, with the energy and healthcare sectors making up for lost ground. Asian equity looks set to follow suit on the news, while futures predict further gains in Hong Kong, Australia and Japan.

Contrary to popular belief, the economic recovery has so far been "V"-shaped. Further cash being deployed into the market has undoubtedly helped, accompanied by a universal tether on interest rates. The big question is whether this recovery can continue, where we are already seeing volatility rising again. We are unlikely to see a full lockdown such as that of April, and significant pullbacks are likely to represent buying opportunities rather than longer-term fears. We have already seen a significant development on the EU recovery package, with new stimulus measures set to douse concern over the region.

There will certainly be further challenges ahead. Inflation has not yet caught up, and the government debt pile swells. Supply chain disruptions may bring diversification in manufacturing, away from China and into other Asian economies. A large number of businesses with low inventories preceding this change are to be key drivers of growth over the coming months. We expect to see the recovery continue in spite of a flattening out as winter closes in on the Northern Hemisphere, and are yet to understand the impact that cold weather may have on the rate of infection. While interest rates are sure to remain low, and we continue to see renewed fiscal support, these challenges can be staved off for the time being. There is plenty of scope for growth to persist while production continues to catch up with the much faster rebound in goods consumption, despite the upward pressure on prices.

We continue to see strong performance across the LGT Vestra Model Portfolios, pushing further ahead of the ARC index while showing good protection on the downside. If recovery begins to slow and markets even out, we are well placed as active managers to seek the dispersion of returns which will inevitably occur.

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