



REEVES  
INDEPENDENT  
— EST 1996 —

Investment Services

# Reeves Market Outlook

June/July 2020

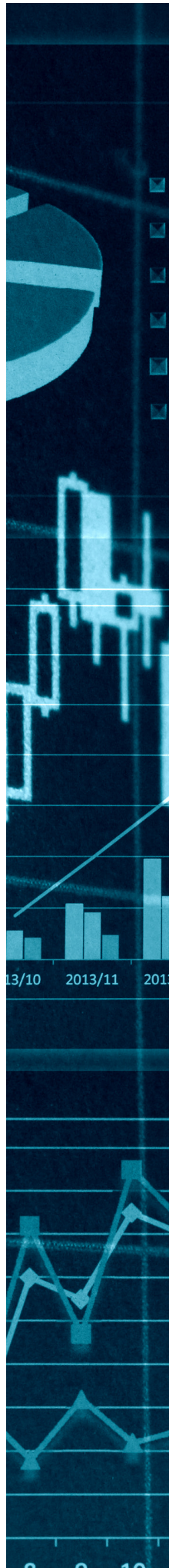
# 1. Flare up of US Covid-19 cases threatens market growth

Global stocks fell lower throughout parts of June as new measures to contain the virus were introduced. These measures look to threaten some areas of economic recovery. There have been new outbreaks reported in Germany and Beijing whilst some states in the US are reporting that their hospitals are nearing capacity. These developments in new cases of the Virus have raised fresh concerns that further lockdowns may be implemented, and the easing of regulations could be reversed. This would vastly dampen the recovery from the pandemic in the larger economies around the world.

## Relevance/Impact

Further lockdowns and a global second wave could cause market falls deeper than those that we saw in March, there must be careful navigation in choosing sectors to invest in these times. There should be a continued diversification throughout all portfolios to ensure a spread of this possible risk.

These concerns over a second wave may be misplaced slightly however and the market may appear to be more optimistic. Fears over the impact of a second wave will likely persist for several months and many major investment houses believe that countries are now better equipped in medical supplies and social distancing plans in order to cope with an increase in a new cases. It is likely that a fresh outbreak will also be more localised and easier to trace and so national lockdowns should not have to reoccur. Chief economists have stated that this should also allow limitations to the economic impact of increasing cases. It is more than likely that most of the economic activity can start to increase and we may also see an improvement in productivity and sustainability of supply chains moving through the recovery period. We have seen a strong rebound in recovery already in the markets with the largest 50-day rally in US markets in history. This recovery, although welcomed, has created an air of 'Cautious Optimism' that is currently reflected in our lower risk and shorter-term portfolios.



## 2. Global Central Banks Issue Stimulus to Rescue Economies

Stimulus measures provided by global Central Banks have assisted in the equity market rally since they hit their lowest point in March. This should lead to more optimism as historically, at the bottom of a recession when the monetary and fiscal stimulus are flowing is a time for investor confidence in the market cycle.

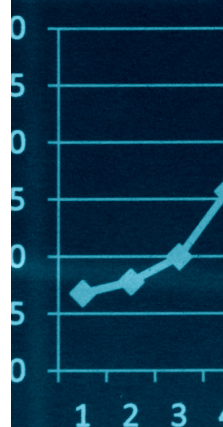
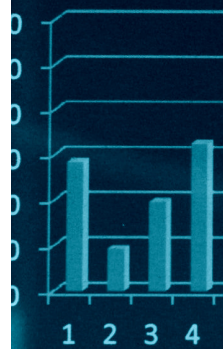
The Bank of England has increased the stimulus package to £745 billion to aid the economy through the impact of the lockdown. This stimulus package effectively saved the UK economy from 'insolvency' and saved thousands of companies from failing through lowering borrowing costs.

China has also recently stated that the country central bank is lowering the requirements on reserves, this will allow an increase in money to be released into the financial system.

### Relevance/Impact

We are currently experiencing record levels of fiscal stimulus, record low interest rates at a sustained low level and ongoing low inflation. These factors should create a supportive environment for positive outperformance of equity and other such risk-assets.

A longer-term impact of this government stimulus could be low interest rates for the foreseeable future. This means that borrowers will continue to benefit, and savers will continue to lose out due to inflation. This should create more spending and eventually lead to inflation in the economy. It also allows investors to benefit more as the money invested in smaller companies is more likely to succeed as these smaller companies can borrow money easier and use this to boost the company profits. These ongoing low interest rates also favour those higher yielding assets, such as stocks and property, all of which are currently in our model portfolios.





### 3. US Federal Elections Become Bigger Focus for Markets

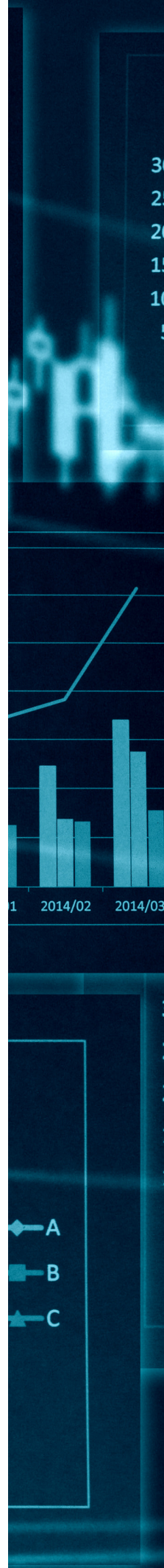
The U.S. economy experienced a historic slowdown, as did the rest of the globe, but the U.S. still has relatively high infection rates and so this an incredibly high-risk factor to monitor.

Many analysts are predicting that one of the biggest risk factors present in the current market is the US Federal elections as they are becoming increasingly closer. A recovery in the stock market and the economy provide President Trump with his best chance of re-election and so this may prevent Trump from de-escalating the hostilities with China. However, if Trump's poll ratings show him in a considerable losing position closer to the election date, he may feel his chance for victory will be increased through imposing more tariffs.

#### Relevance/Impact

Markets have previously had a love/hate relationship with Trump's presidency, they initially rallied but the global trade war knocked markets as instability appeared between China and the US. Democratic party leader, Biden, is not considered particularly radical in his approach to business but there is pressure for him to reverse the tax cuts that were imposed by Trump.

Currently, the markets appear to generally be positive in the US throughout June and so are currently not reflecting too much concern over the election. This could be because the result is still four months away and we are in unprecedented times so the usual predictors used in the elections are unable to be used particularly accurately. Many analysts predict that the market will begin to reflect the campaign more sharply in September. This is something to keep an eye on for the next few months as the US makes up a portion of all actively managed portfolios. Investing around an election can be difficult and the only certainty currently is that volatility in US markets is likely to continue throughout the second half of 2020. The outcome of the election could ripple across all global markets, another period of Trump in power could lead to further escalations in the US-China Trade War.





## 4. Asian Economies Have Had Worst Quarter

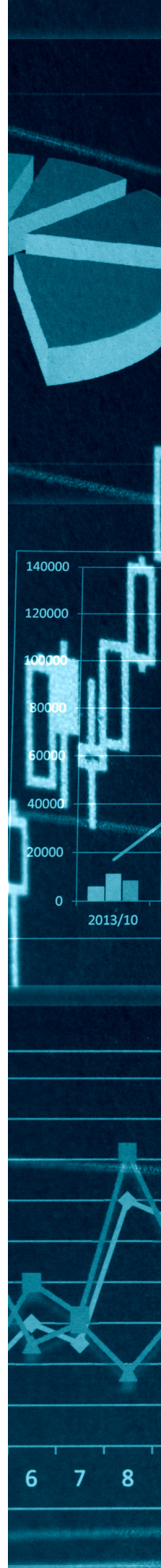
The Asian economies are coming to the end of their worst quarter since the 2008 financial crisis. A lot of investors deserted the sector during the initial waves of the virus through fear of large falls in emerging markets. This has been worsened further by the reversal in globalisation and global supply chains being unwound. The pandemic has accelerated the fears surrounding trading food security and increased the pressure for countries to produce their own medical supplies domestically. Historically, Asia has acted as a 'manufacturing powerhouse' for the Western world but it appears this is changing with exports falling.

Nevertheless, moving forward the Asian markets are showing relative strength with the adoption of technology and rising wealth is creating incredibly attractive long-term investment prospects. The lockdown has created a worldwide shift to online and Asia currently offers huge opportunities in E-commerce and online gaming and so these have seen a large uplift as more countries adapt.

### Relevance/Impact

China was the first country to enter the Coronavirus crisis and enter a lockdown, they have now emerged from this and entered recovery through the second quarter of 2020. The services sector has started to catch up with the manufacturing sector in China, a similar pattern to one we will hopefully see in the UK. Leading economists believe that China is well positioned for recovery moving into the second half of 2020, however longer-term consequences on supply chains and infrastructure are yet to be seen.

Long term growth prospects in Asia are directly related to the productivity of the countries becoming more efficient than that of developed countries. This will be supported by the rise in research and upskilling that we are seeing in North Asian countries. Small exposure to Asia is considerably favourable for the recovery prospects but with known risks associated.



## 5. UK Economy Opens for Business

The lockdown measures that were implemented across the UK by the Prime Minister Boris Johnson on March 23 have led to unavoidable job losses and a contraction in the UK's GDP. However, these measures are beginning to ease and 'non-essential' shops are now open, economic activity is predicted to recover slowly. We have now moved from experiencing a sharp downturn and are moving closer to a stabilising environment.

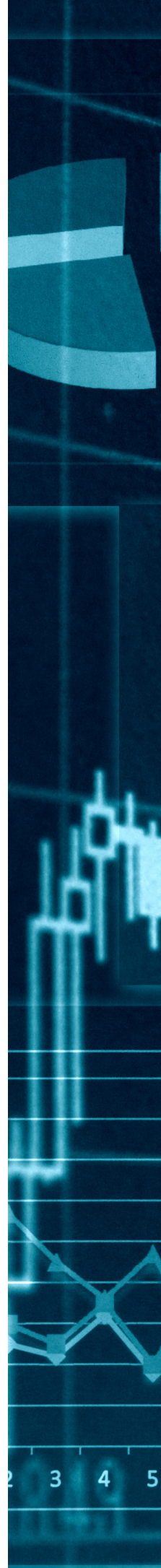
However, many analysts remain cautious about the speed of the broader recovery and the Organisation for Economic Cooperation and Development have stated this month that the UK could be likely to suffer the worst economic damage due to the Coronavirus out of any country in the developed world.

### Relevance/Impact

The UK economy is currently 'walking a tightrope' as slowly reopening the economy could improve the recovery but if the rise in new cases increases too quickly, it may trigger a stricter lockdown. This will prompt a more severe recession.

Chief Economists are predicting that the UK will return to growth in the third quarter, this is fuelled further by the recent plans to open parts of the leisure sector from 4th July. It has been the manufacturing sector that has been leading the UK's recovery, with the service sector being hit the hardest. The recovery of UK companies will directly impact all companies invested through UK equity funds. Exposure to these UK equities offer large growth prospects but carry the risk of volatility through the recovery.

Optimistically though, 99% of Wetherspoons workers have said that they wish to return to work and the public sentiment to return to the restaurants is also incredibly high. This positive sentiment to return to spending time and money in pubs and restaurant will only accelerate the economic recovery, although social distancing will make it impossible to return to pre-virus levels anytime soon. The economy is recovering quicker than anticipated and so this cautious optimism remains.



## Do you have a question for our Investment Team?

If you have any questions about our Portfolio Management Service or questions about your investments, please book a call with our Investment Service Team who will be happy to answer all your questions.

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