Market OUTLOOK

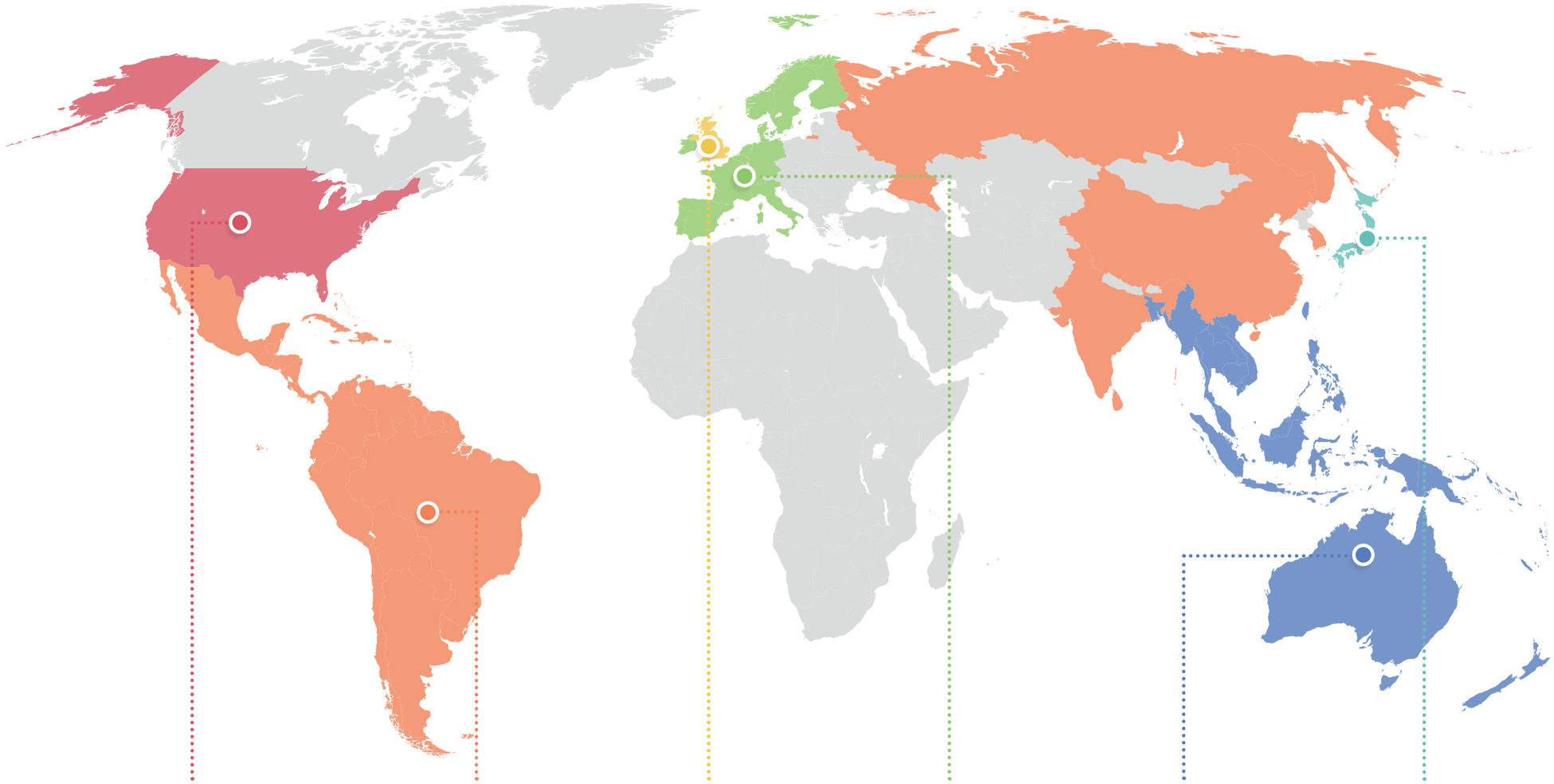
Q1 2020

architas

Given the unprecedented situation and current high levels of volatility in the world economy, markets are clamouring for a conclusion to Covid-19.

The combined action from governments and central banks has been a critical factor in reinstating some hope of a market rebound. We believe that while governments can support a short recession, they are unlikely to maintain such levels of support for many months. The aftermath of containment measures being taken across the globe will define the economic factors on the road to recovery.

This recovery is largely out of markets' hands and as such, we maintain a cautious approach by keeping cash on the side-lines. This provides us with the option to be patient and add to riskier assets – where this approach is suitable – if or when the risk-return trade-off improves.



UNITED STATES

STOCKS ▽ BONDS ⊖

- US stock markets have experienced the strongest rebound from the lows helped by unprecedented stimulus from the Federal Reserve and US lawmakers. This leaves US stocks less attractive on a valuation basis compared to other regions.
- We retain a balanced view on US bonds. US government bonds can offer a degree of portfolio protection but the outlook for US corporate bonds is less rosy.

EMERGING MARKETS

STOCKS ▽ BONDS ⊖

- We are not positive on emerging market stocks. The global scramble for the US dollar has amplified the sell-off. Many emerging market countries are susceptible to sustained oil price declines.
- Emerging market fixed income still offers value but this may be overwhelmed by investors prioritising capital preservation and a flight-to-safety in the short term.

UNITED KINGDOM

STOCKS ⊖ BONDS ▽

- UK stocks could now be at an attractive entry level for investors although the unresolved trade deals with the rest of the world pose risks.
- Despite record investor appetite for buying British government bonds, or gilts, we still have a preference for US government bonds. Also the Brexit hangover is still to come.

EUROPE

STOCKS ▽ BONDS ▽

- We are less positive about European stocks compared with other developed markets. We believe there will be an impact on growth and earnings for several quarters at least.
- Regionally, European bonds look the most at risk. The European Central Bank's bond market intervention has provided relief. Arguably, we need a coordinated response from all countries to replace lost wages.

ASIA PACIFIC

STOCKS ⊖

- We are tactically shifting some of our exposures from US to Asian equities. They have so far seen a more modest recovery – providing more room for improvement.
- Some Asian countries appear in a more advanced stage of contamination control. So Asia offers good short-term value on a relative basis. We will monitor this closely and adapt as conditions evolve.

JAPAN

STOCKS ⊖

- Covid-19-related disruption to global supply chains and a drop in tourism will hit Japan's economy hard as will the postponement of Tokyo's Olympics. However Japanese stocks look more attractive on a valuation basis.
- The current demand for the Japanese yen is due to investors selling their risky assets purchased with low-cost yen loans rather than a sign of confidence in Japan or indeed its currency.

KEY

△ Positive

▽ Negative

⊖ Neutral

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