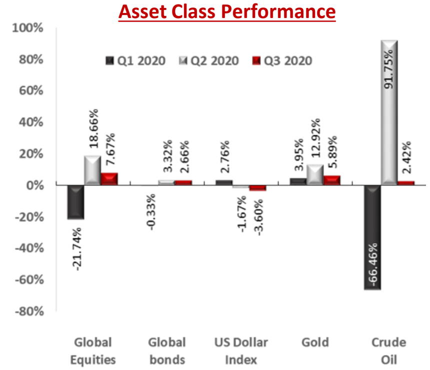
Quarterly review

Asset Class Overview

2020 is shaping out to be an atypical year marred by the uncertainties surrounding the COVID-19 with unprecedented liquidity injections by the authorities to prop up the economy. However, for the past few months, most economic activity indicators are showing the pace of growth moderating with GDP forecasts for many countries largely expected to be revised down at their release date. Yet, all major asset classes have closed the third quarter on a positive note.

Global equities, the top asset performer, gained 7.7%, erasing all its losses year to date but returns across all major geographical markets have diverged widely, highlighting the benefits of geographical diversification in portfolios. In USD terms, US and Asian equities were top of the table with Q3 gains of 9.2% and 7.7% respectively, followed by Japanese equities (+3.8%) while the usual laggard, European equities, fell 0.3%.

Asset Class Performance



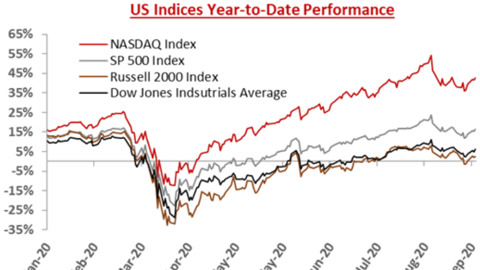
Source: Bloomberg, MCB PBWM

On the commodities side, Gold gained 5.9% to record its eighth consecutive quarter in the green while Crude Oil was more subdued, ending the quarter up 2.4%, but is still down 34.1% for the year.

US Equities

In Q3, all major US indices closed comfortably higher with the SP 500 up 8.9%, Dow Jones up 8.2%, Nasdaq up 12.6% and Russell 2000 up 4.9%. Yet, it was far from smooth sailing. While in July and August, the combined tailwinds of continued fiscal and monetary stimulus, coronavirus vaccine hopes, pent-up consumer demand and decent earnings pushed the SP 500 index to a high of 3,579, this enthusiasm was not sustained in September.

US Indices Year-to-Date Performance



Source: Bloomberg, MCB PBWM

Rising doubts over a timely vaccine rollout, a lack of progress on the relief bill, election anxiety buildup and rising COVID-19 cases, however, sent stocks sliding 7.9% over four consecutive weeks. Despite this, the index managed to clock both its best third quarter performance since 2010 and its best August in over 30 years. While technology heavyweights were behind the ascent of the SP 500 index, it was interesting to note the level of exuberance on display in other segments of the market led by strong performances in consumer discretionary and industrials.

A combination of meager expected returns from bonds and an increased participation from retail investors has triggered a rush into companies with perceived high growth potential. According to a Dow Jones Market analysis, more stocks skyrocketed at least 400% at some point in the first three quarters of the year than in any comparable period since 2000, with notable examples being Zoom Video Communications +591%, online retailer Overstock.com +956% and Tesla +413%.

Both the initial public offerings (IPO) and Merger and Acquisitions (M&A) markets saw a flurry of activity, reminiscent of the dotcom era. With USD 80 billion raised so far, IPOs are on track for a banner year as the likes of cloud software company, Snowflake, raked in USD 3.4 billion setting a record for a software company. The M&A segment was also rift with a record USD 1 trillion worth of transactions globally driven by some high profile deals such as ByteDance, TikTok's Chinese owner selecting Oracle to be its technology partner in the US, Gilead purchase of oncology company, Immunodemics and NVDIA agreeing to acquire chip designer, Arm Limited from Softbank.

Within the SP 500 sectors, consumer discretionary recorded a gain of 15% in Q3, driven by Amazon (+14%), Nike (+28%) and Home Depot (+11%), while within Industrials, FedEx gained 80% and United Parcel rose 51%. Information Technology sector quarterly gain of 12% was led by Apple (+27%) and Nvidia (+42%). The sole laggard was the Energy sector, which dropped 20.9% as the COVID-19 pandemic continues to weigh heavily on oil companies.

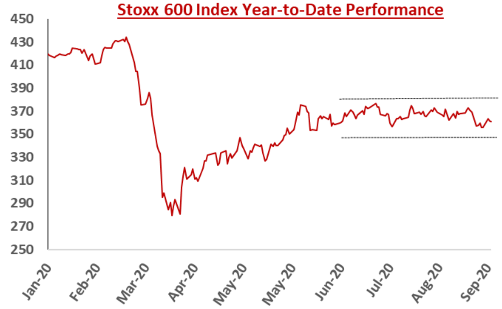
Performance (USD)	Q320	YTD
SP 500 Index	**8.5%**	**4.1%**
Information Technology	11.7%	27.5%
Consumer Discretionary	14.9%	22.4%
Communications	8.7%	7.6%
Materials	12.7%	3.7%
Healthcare	5.4%	3.6%
Consumer Staples	9.6%	1.9%
Industrials	12.0%	-5.4%
Utilities	5.2%	-8.1%
Reits	1.1%	-8.5%
Financials	3.8%	-21.7%
Energy	-20.9%	-50.2%

Source: Bloomberg, MCB PBWM

European Equities

Despite the positive effect of the European Union recovery fund announcement in June, on the global stage European stocks ended up being major laggards this quarter. The Pan-European index, Stoxx 600 posted a measly gain of 0.2%, trading mostly range bound, unable to break out of its 200-day moving average. Although the optimists may view it as resilience in the current context of heightened market volatility, this flat performance is hiding major dislocations underneath, both at the sector and country level.

The rotation that began towards the end of May was on full display this quarter as investors moved away from the typical value sectors such as banks (-12.1%), telcos (-8.6%) and energy (-10.6%) towards cyclical sectors like autos (+10.5%), industrials (+8.3%) and chemicals (+8.8%).



Source: Bloomberg, MCB PBWM

This resulted in individual country indices having diverging fortunes depending on their sector composition. The large cyclical exposure benefitted largely Germany's main index, DAX making it the top performing European index with a 3.7% quarterly return. Also playing in DAX's favor is its limited exposure of its constituent companies' revenues domestically and significant exposure outside of Germany. As global demand picks up steam, what was a drag in the first two quarters when the pandemic first hit is now leading the German index recovery.

Performance (EUR)	Q3 20	YTD
Stoxx 600 Index	0.2%	-13.2%
Switzerland	0.0%	-3.6%
Germany	3.7%	-3.7%
France	-2.7%	-19.6%
Italy	-1.9%	-19.1%
UK	-4.9%	-27.2%
Spain	-7.1%	-29.7%

Source: Bloomberg, MCB PBWM

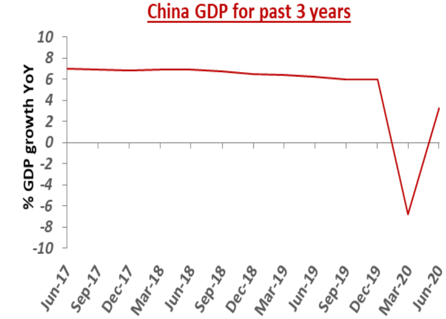
By contrast, Spain's Ibex index was down 7.1% this quarter and up 29.6% for the year, as the country saw one of the fiercest resurgence of COVID-19 cases in Europe. Spain's current economic woes stem from its over-reliance on tourism and the dual labor market. The recent credit outlook revision to negative by the S&P Global Ratings agency, its first downgrade since the European debt crisis, reflects the challenges ahead.

While UK's FTSE 100 did relatively better, posting a loss of 4.9% in both GBP and EUR terms during the quarter, when viewed on a year-to-date basis and in EUR terms, the FTSE 100 had a similarly dire performance to the IBEX with a negative return of 27.5%. With investors already grappling with a resurgence in virus infections, imposition of fresh social restrictions, and fears of an unemployment spike when government support for wages end next month, they now had to contend with fears of the Brexit deal being scuppered. As investors await the unfolding of the Brexit saga, UK equities and the Pound look set for a volatile year end.

Emerging Markets Equities

In Q3 20, emerging markets equities gained 8.7% in USD terms, marginally outpacing their developed market counterparts (+7.5%) as the net effect of the economic recovery of index heavyweight China and a weaker US Dollar outweighed worsening US-China relations and COVID-19 outbreaks in other key emerging markets including Brazil and India. Besides China, Taiwan (+7.7%), South Korea (+10.4%) and India (+9.2%) also contributed to the MSCI Emerging markets index outperformance.

Within emerging economies, Chinese equities maintained its status as one of the top performing markets of 2020. After fully clawing back losses incurred during the COVID-19 sell-off by the end of the second quarter, its main equity gauge, the CSI 300 maintained its momentum into Q3 with a 10.2% rally bringing its year to date gains to 12% (in CNY terms).



Source: Bloomberg, MCB PBWM

Investors shrugged off tensions arising over Chinese companies being allowed to conduct business in the US amidst privacy and intellect property rights protection issues (namely Tencent, Tiktok and Huawei). Instead, the focus was on China's stunning recovery as it became the first major economy to return to economic growth (+3.2% y-o-y) after its expected first-quarter slump (-6.8% y-o-y), in stark contrast to other nations still grappling with virus outbreaks and economic contractions.

Despite the easing of its lockdown, India is still struggling to control the spread of the virus. As the pace of new COVID-19 infection keeps rising with 5.5 million cases reported during the last 3 months alone (out of a total of 6.4 million), India remains one of the world's most affected countries. After its second quarter GDP contracted by an unprecedented 24% year on year, prospect for a swift recovery remains grim as the economy is expected to shrink for the first time in four decades, in the full year to March 2021. Yet, India's equity markets seemed to be singing to a different tune with the Nifty 50 index was up 9.2% for the third quarter (YTD : -7.6%). To note, half of this performance came via two stocks, Reliance industries (+31.1%) and Infosys (+37.0%).

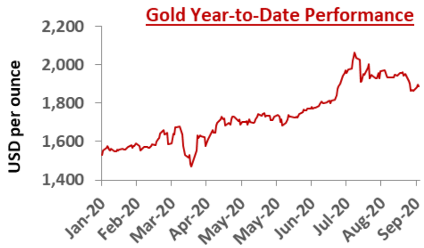
Japanese Equities

The Nikkei index closed the quarter with respectable gains of 4%. After a pickup in the first 2 weeks of August to regain the ground lost at the end of July, the Nikkei index traded mostly sideways for the rest of quarter. Not even news of Prime Minister Shinzo Abe's surprise resignation due to health problem caused any major market reaction. With his former Chief Cabinet Secretary Yoshihide Suga taking over the reins, it would be safe to assume no major policy upheaval with a continuation of the Abenomics.

However, immediate downside risks remain with the economic rebound from the virus-driven contraction shaping up to be weaker than anticipated and having to revise down the economic benefits of a postponed and scaled down Tokyo Olympics.

Gold & Silver

Q3 witnessed yet another relatively strong quarter from Gold with 5.9% bringing its year to date gains to 24.3%, cementing its status as one of the best performing asset classes so far this year. Although Gold price dropped 8.6% from its record high of USD 2,063/ounce of 6 August, the bullish case for the Bullion remains intact with: 1) little to no yield from US fixed income instruments, 2) further market volatility expected ahead of US elections and 3) sustained investors demand as Gold ETFs holdings soared to record highs.



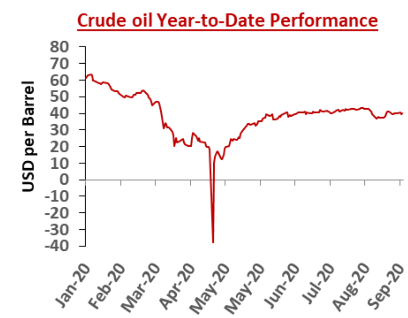
Source: Bloomberg, MCB PBWM

An often-used proxy for Gold, Silver followed a similar pathway but with wilder swings to record yet another stellar performance this quarter. Its Q3 gains stand at 27.6%, despite a 33% fall from its August peak to put its year to date return at 30%.

Crude Oil

Crude oil managed to end the third quarter with gains of 2.5%, despite a 15% drop during the first week of September amidst concern on the sustainability of the recovery in global economic activities. However, with year-to-date losses stacking up to 34.1%, oil is among the worst hit of all asset classes. Although the global economy has rebounded with a strong pick up a global activity, air travel restrictions still in place remain the headwind given that jet fuel makes up by far the largest petroleum product group in the oil market.

With the OPEC group's current agreement to cut back production set to expire in December, failure to agree on an extension in time will likely result in an additional supply of at least 2 million barrels per day.

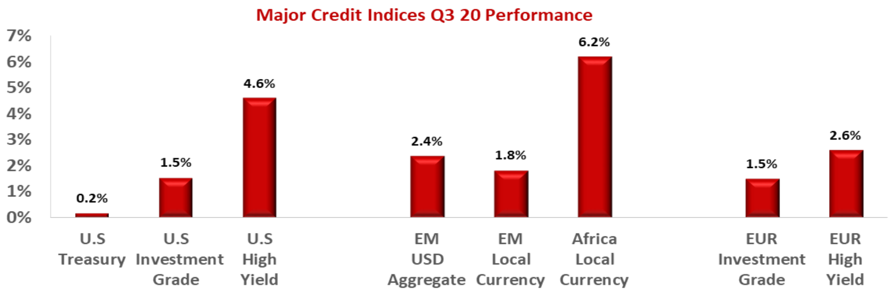


Source: Bloomberg, MCB PBWM

Fixed Income

Similar to equities, despite the virus crisis clearly taking its toll on the economy, with GDP numbers falling significantly around the globe and continuing central banks and government support, the impact has also not been reflected within credit markets.

In terms of performance, Q3 20 saw a continuation of the second quarter trend, with a rebound in returns for higher beta credit sectors like High Yield, Emerging Markets and African fixed income outperforming lower beta sectors like Investment Grade and Government bonds.



Source: Bloomberg, MCB PBWM

Going Forward

So far, 2020 has been unfolding in the most atypical way and there is no reason to expect that the year-end finale is going to be anything but smooth sailing. With less than 30 days before the US Presidential elections, the crescendo is building up as President Trump coronavirus illness added up to the uncertainty usually surrounding elections and the risk of the outcome being potentially contested by the candidates. Another key factor is the configuration of the US Senate and Congress post elections, which would influence the elected candidate's ability to push through reforms.

The latest polls show Biden pulling ahead along with an increased likelihood of a Democratic sweep in both Houses but wild swings are expected in the run up to 3 November. Looking beyond the US elections, market focus should move back to COVID-19 infection rate and the timing of the approval of a vaccine.

Amidst this high level of uncertainty and central banks and governments pledging to scale up their support if needed, for now we maintain our current equities allocation but may look to increase hedges to US equities and USD in our portfolios as we draw nearer to the US elections.