LGT Vestra Monthly Market Commentary in association with PIA Wealth Management

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So far this year the dispersion of returns between different geographies, styles, sectors and asset classes has been extraordinary. Many equity markets have recovered substantially since the March lows, although the recovery has been far from smooth. As we move towards the end of the year, three topics are likely to be at the forefront of investors' minds: the continued evolution of the COVID-19 pandemic, the presidential election in the US, and conclusion of Brexit trade negotiations.

Lockdowns have eased as the spread of the virus has been better contained; however, there have been signs of a second wave in Europe and elsewhere, which could reverse the easing of restrictions. The UK has now imposed quarantine restrictions on people returning from Spain, and is considering whether to impose the same restrictions for France. In certain parts of Northern England, localised lockdowns have already been re-imposed. These strict lockdown measures have proven an effective method in reducing the spread of the virus, albeit at an enormous economic cost. On a positive note, treatments appear to be more effective and the proportion of people dying as a result of the virus has declined. Whilst considerable efforts continue to be devoted to the development of a vaccine, at the moment it appears to be two steps forward, one step back.

The polarised nature of the US election may add volatility to the markets for the rest of the year. Whilst the Democratic candidate and former Vice President, Joe Biden, may be less friendly to big businesses compared to President Trump, he could however ease trade tensions with China. Trump's handling of the pandemic has led to a fall in his polling ahead of the November election, yet despite Biden's clear lead in the polls, few investors seem keen to call the outcome of the election. Given the surprise of the 2016 election, we cannot write off a Trump comeback. In the meantime, reaching an agreement on fiscal action may be difficult as Trump will be ready to impugn anything that threatens his hold on power. However, it is in no party's interest for the economy to slump and unemployment to remain elevated, so we can expect fiscal and monetary stimulus to continue. Despite many polls writing off the incumbent President, we should not expect the election to be a simple coronation for the new candidate.

Against the background of the COVID-19 crisis, Brexit trade negotiations continue. The EU and UK are still as far apart as ever, with no progress on key sticking points. EU leaders appear to be talking of discussions going on until October. However, without any tangible signs of a resolution, we risk heading towards leaving without a trade deal in place. Brexit remains a drag on the UK market, which has been a serial underperformer in recent years. It has become clear we would need to see a favourable resolution to post-Brexit trade talks to support more domestically-oriented stocks, and to encourage international investors to return to the market.

Whilst a resolution to each of these events does not appear imminent, it is possible the situation will change as we move into the final few months of the year. Should there be widespread availability of an effective COVID-19 vaccine, clarity on the next President of the US, or a resolution to Brexit negotiations, we could start to see further support for markets. In the meantime, as markets continue to balance these issues with continued fiscal and monetary stimulus, we expect volatility to be high and the dispersion of returns to remain wide. We therefore continue to encourage a selective approach to equities and corporate bonds.