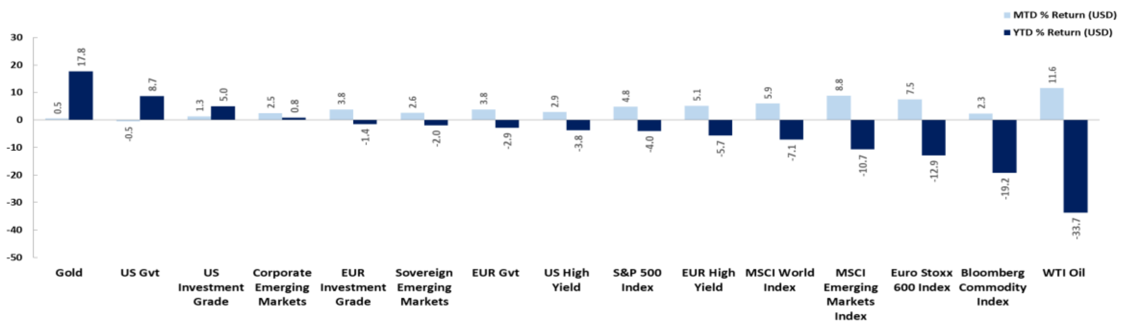
Monthly Market Wrap-Up – June 2020

The risk assets rally faded a little bit in June with global equities relatively flat on the month. This is in part due to a two tone month with a more risk-on first half fueled by global economic reopening, the thought of the worst from the virus being behind us, and lockdown measures easing. However, in the second half, investors were brought back to reality with social unrests emerging in the US and Hong Kong, deteriorating US-China relations, swings in the Brexit negotiations, and to top it all a rising number of new daily cases in the US which drove investors to take a risk-off or more cautious approach to markets in the second half. Oil was once more the best performing asset class this month building on the law of small numbers as prices recover from the deep contango futures were in just over two months ago. Emerging Markets was the best performing region across all asset classes.

Chart 1. Asset Class return in June 2020 and YTD (USD Base)



Equities in the US continued to rise on the final day of trading with the S&P 500 Index realizing the best quarter since 1998 (c.+20%) **(Chart 2)** as investors digested better-than-estimated economic data despite concerns over the resurgence of new Covid-19 cases and deteriorating US-China relations. In comparison, European equities posted their biggest quarterly advance in five years but continue to lag US equities (YTD) in the recovery despite retracting 55% of their losses **(Chart 3)**. In both regions, indices price recovery was fueled by the swift outperformance of the tech sectors **(Chart 4 & 5)** with studies suggesting the pandemic forced forward the adoption of online-practices, e-commerce, mobile payments, and more by at least 2-years. As a result, firms like Square, Adyen, Amazon, Microsoft, and the likes showcased strong double to triple digits performance.

Chart 2. S&P 500 Returns Histogram (Quarterly)

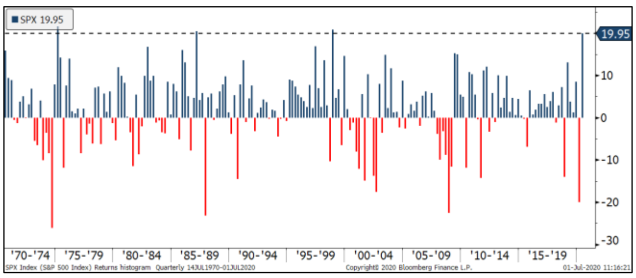


Chart 3. EuroStoxx 600 Index Candle Chart (Weekly)

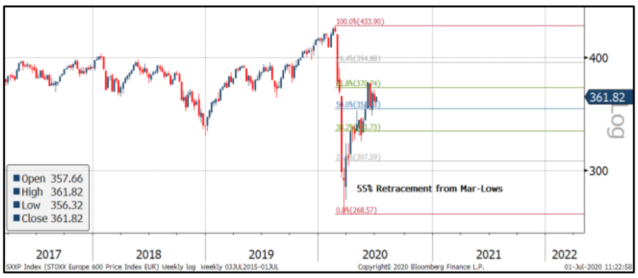


Chart 4. US Sectors Performance

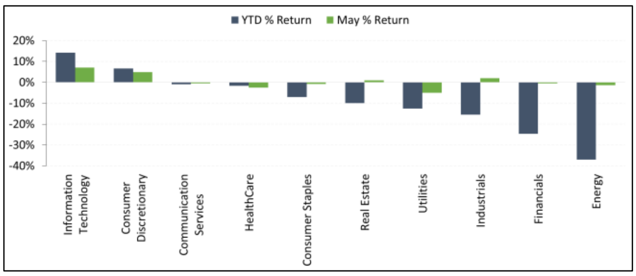
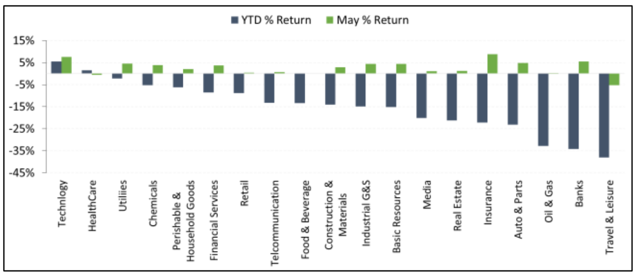


Chart 5. EU Sectors Performance



In fixed income, the US Treasury yield curve remained relatively unchanged despite seeing 10Yr yields rising by as much as 30bps earlier last month **(Chart 6)** driven by global economic reopening and lower uncertainty perceived by markets. However, this was short lived and on rising concerns with new cases data coming in yields reverted back to their earlier levels. At the same time, we witnessed an inverse (logical) move in high yield with credit spreads tightening early in the month before rising back again on renewed concerns **(Chart 7)**. European sovereign bond yields followed a similar pattern. However, we are seeing a more noticeable yield curve steepening with shorter-tenor yields dropping relatively more than their longer-tenor counterparts **(Chart 8)** possibly driven by some early understanding inflation might resurface in Europe as a result of the unprecedented waves of stimulus and a reduced dependence on Chinese manufacturing. Risk across the union also seems to be decreasing with Italian-German 10Yr sovereign spreads decreasing once more **(Chart 9)**.

Chart 6. US 10-Year Treasury Yield (Daily)

Chart 7. US HY Credit Spreads (Weekly)

Chart 8. German Yield Curve EoM vs. 1M Ago

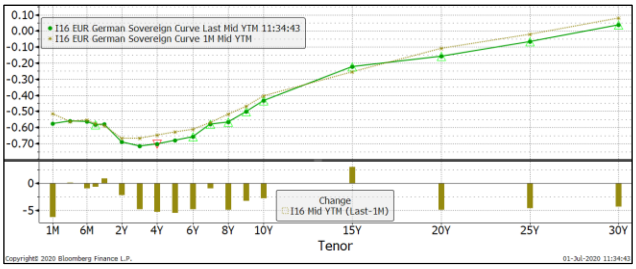
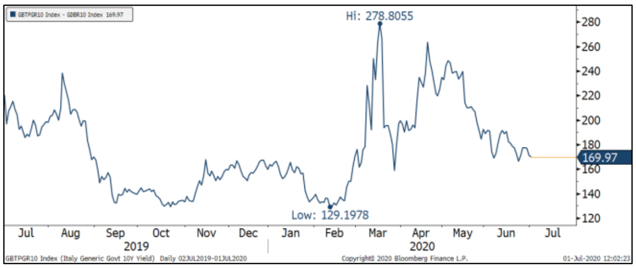


Chart 9. Italian-German 10Y Spread (Weekly)



The USD **(Chart 10)** weakened swiftly early in the month driven by a risk-on move across the market as global economies reopened and lockdown/social distances measures were eased. However, over the past couple weeks, a progressive rise in overall uncertainty has been fueling a small relief rally for the greenback. After being flat on the month, the British Pound rose the most in a week **(Chart 11)**, reaching yesterday's high, after Europe's chief negotiator said a Brexit deal is possible. Further positive developments in the Brexit saga should prove supportive of the currency. The weaker dollar has been a positive to the Euro which has been trading above the 1.12 mark for a couple weeks and seems to find support on its former resistance **(Chart 12)**. Similarly to other currencies, the Yen reverted back to its end of May levels after the swift risk on-off move that saw the currency pair approach the 110 JPY/USD market early in the month **(Chart 13)**.

Chart 10. US Dollar Index Spot Prices (Weekly)

Chart 11. USD / British Pound Spot Prices (Weekly)

Chart 12. Euro / USD Spot Prices (Weekly)

Chart 13. USD / Japanese Yen Spot Prices (Weekly)

With the global economy emerging from a near three-month period of stasis, the activity is starting to pick up the pace and providing support to a wide range of commodities. The demand for both energy and industrial commodities continues to recover. As a result, WTI Oil futures prices continued to rise this month (c.+11.6%) with front month contracts trading above $40/bbl. for the first time since March **(Chart 14)**. Copper prices pursue its rise **(Chart 15)** confirming the global economy is on a path to recovery. In contrast, we will note the continued performance of gold **(Chart 16)** as the uncertainty and caution still prevails among investors. Silver was relatively unchanged last month, but the commodity's precious metal status and industrial application capabilities should continue to prove supportive in the near-to-medium term **(Chart 17)**.

Chart 14. Oil Spot Prices (Monthly)

Chart 15. Copper Spot Prices (Weekly)

Chart 16. Gold Spot Prices (Monthly)

Chart 17. Silver Spot Prices (Monthly)

Special Focus – Emerging Markets

Emerging markets performed relatively well this past month with portfolios positively benefiting from an overweight to the region, and particularly Latin America. The MSCI Emerging Markets Index outperformed both US and European equity markets by 4.04% and 1.29% last month. It also outperformed global equities by 2.89%. In the sovereign credit spectrum, EM bonds outperformed their US counterpart by over 3%. While they did lag EU sovereigns, they remain the best of the two YTD (c.+1% relative alpha). Supported by a global economic recovery and rising commodity prices EM currencies also outperformed with the EM FX basket outperforming the G10 currency basket by almost 1% last month. Overall, our overweight exposure to EM has positively contributed to portfolios last month.

Chart 18. MSCI Emerging Markets (Weekly)

Chart 19. EM Sovereign Index (Daily)