momentum

Global Matters Weekly

15 June 2020

Looking Forward

– Jackson Franks

For those of you that don't know, this Friday is the mid-point of summer and as I have a Swedish partner this means there will be a celebration. Midsummer, or Midsommar in Swedish, is an annual celebration in Sweden which consists of a never-ending lunch party involving flowers in your hair, dancing around a pole and singing songs while drinking unsweetened, flavoured schnapps. If that doesn't sound fun enough you also get to down large quantities of pickled herring served with new potatoes, chives and sour cream, an acquired taste for sure. The Midsommar celebrations coincide with the middle of the year and I find it a great time to reflect on the prior 6 months and what the second 6 might bring. With COVID-19 impacting the way we have worked in the first half of the year let's look forward at what the second half of the year may entail for the office sector.

For the majority of businesses rent is one of the highest cost items on their P&L, so with the successful transition of moving to home working overnight why would businesses continue to keep paying for space? I believe there are two main reasons: (1) to maintain and integrate your business culture within the team and (2) collaboration, idea generation and staff training. Although the transition to working from home has been seamless, businesses are questioning how sustainable it is for their employees. Employers must remember that their staff are all in different phases in their careers and life. Some employees will be living in a one bedroom apartment and others a home with a designated quiet workspace which will have an impact on the sustainability of that individual's productivity of home working. Personally, I do not believe working from home permanently is sustainable, however, I do believe the cultural shift to more flexible working in the developed world will have a significant impact on the office sector.

The office market prior to COVID-19 was already in transition but what had been expected to evolve over time transformed overnight. Flexible working is not new to the sector but the trend has accelerated due to the pandemic. Consequently, there will be a reduced demand for office space as businesses will look to down-size when leases expire due to a decrease in staff numbers in the office at any one point in time. However, it is hard to pinpoint what the exact decrease in demand will be. Even though businesses will look to reduce employee desk space, we may well see an increase in demand for meeting rooms, more square footage per employee and an increase in size of common areas due to social distancing rules. Ignoring the current economic conditions and tenant defaults, the actual impact to landlords of the evolving market is hard to quantify and showcases the importance of taking an active approach to the sector and the property market in general.

At Momentum, we gain our property exposure by investing directly and indirectly through diversified listed REITs. With the office and retail sector going through structural changes it is important to be invested in managers that take an active approach to their assets and tenants. We take significant confidence from the experience our managers have across all aspects of property asset management, which we believe will be an important factor in delivering positive shareholder returns in these testing times and beyond.

The **Marketplace**

- The US's longest expansionary cycle in history (128 months) officially ended
- US stocks suffered their worst weekly decline in almost three months
- Brent crude fell 8.4% ending the week at $38.7 a barrel
- Gold rose 2.7% ending the week at $1730.8 an ounce

Market **Focus**

US

- The Fed announced that their 'Main Street' program will be expanded to be increasingly accessible to small and medium sized businesses.
- US job openings declined by 965,000 to 5.046 million for the month of April, with the fall marginally better than expected.
- The Fed announced that it expects to maintain a near zero federal funds rate through to 2022.
- May's CPI reading came in lower than expectations at -0.1% month-on-month against 0.0% expected.
- Concerns of a second wave of Covid-19 and investors securing their recent gains contributed to the S&P 500 having its worst daily decline on Thursday since March.

Europe

- Equities fell 5.6% amid fears of a second wave of Covid-19 and a delayed economic recovery.
- German industrial production fell by 17.9% in April, against an expected fall of 16.5%.
- French industrial production fell by -20.1% in April, following a -16.2% decline in March.
- The ECB has recommended an extended ban, through to the end of 2020, on banks' dividends and share buybacks in order to strengthen the banks' capital buffers.

UK

- GDP shrank by a record 20.4% in April (month-on-month), with April being the country's first full month in lockdown.
- Brexit talks continue as the European Commission's Head of Task Force for Relations with the United Kingdom said there were "clear and concrete signals" that the UK would compromise to achieve a trade deal.
- Cabinet Office Minister Michael Gove announced a temporary light-touch customs system with the EU to ease the post-Brexit transition.

Asia/Rest of The World

- It has been reported that Tokyo is set to lift all restrictions on businesses from 19th June.
- Japanese business sentiment fell to -47.6 from -10.1 in the previous quarter., This has been the third consecutive quarterly decline in business sentiment.

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 12 June 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	-4.7%	0.0%	-5.2%	7.1%
United Kingdom	GBP	-5.6%	0.6%	-18.5%	-15.2%
Continental Europe	EUR	-5.2%	1.3%	-11.4%	-2.2%
Japan	JPY	-2.6%	0.4%	-7.6%	3.7%
Asia Pacific (ex Japan)	USD	-1.6%	6.2%	-7.8%	1.4%
Australia	AUD	-2.5%	1.6%	-11.3%	-7.3%
Global	USD	-4.5%	0.8%	-7.4%	3.2%
Emerging markets equities					
Emerging Europe	USD	-3.7%	2.6%	-22.5%	-11.7%
Emerging Asia	USD	-1.1%	6.0%	-5.5%	6.4%
Emerging Latin America	USD	-4.7%	10.4%	-32.0%	-27.9%
BRICs	USD	-1.4%	5.7%	-9.4%	1.2%
China	USD	-0.8%	5.4%	0.2%	14.8%
MENA countries	USD	0.9%	2.5%	-15.7%	-18.0%
South Africa	USD	-2.7%	10.0%	-24.4%	-22.4%
India	USD	-2.2%	3.5%	-22.9%	-22.5%
Global emerging markets	USD	-1.5%	6.2%	-10.7%	-1.4%
Bonds					
US Treasuries	USD	1.4%	-0.3%	8.8%	11.6%
US Treasuries (inflation protected)	USD	1.1%	0.2%	5.3%	8.7%
US Corporate (investment grade)	USD	0.4%	1.0%	4.0%	10.6%
US High Yield	USD	-1.4%	1.7%	-3.2%	1.7%
UK Gilts	GBP	2.4%	-0.4%	10.1%	12.5%
UK Corporate (investment grade)	GBP	1.0%	1.1%	2.8%	7.3%
Euro Government Bonds	EUR	0.9%	0.2%	1.2%	3.3%
Euro Corporate (investment grade)	EUR	0.1%	1.3%	-1.3%	0.5%
Euro High Yield	EUR	-1.1%	1.8%	-5.4%	-0.9%
Japanese Government	JPY	0.3%	-0.2%	-0.8%	-1.3%
Australian Government	AUD	1.1%	-0.1%	3.9%	5.1%
Global Government Bonds	USD	1.2%	0.4%	4.5%	6.4%
Global Bonds	USD	0.7%	0.7%	3.4%	5.9%
Global Convertible Bonds	USD	-1.4%	1.1%	3.0%	8.9%
Emerging Market Bonds	USD	-1.0%	1.1%	-1.0%	2.1%

Source: Bloomberg. Past performance is not indicative of future returns

Asset Class/Region	Currency	Currency returns			
		Week ending 12 June 2020	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	-5.1%	5.5%	-16.8%	-12.8%
Australian Property Securities	AUD	-3.7%	0.7%	-20.1%	-22.8%
Asia Property Securities	USD	-0.7%	6.4%	-15.4%	-12.2%
Global Property Securities	USD	-4.0%	5.3%	-17.7%	-11.8%
Currencies					
Euro	USD	-0.5%	1.2%	0.1%	-0.5%
UK Pound Sterling	USD	-1.4%	1.5%	-5.7%	-1.5%
Japanese Yen	USD	2.1%	0.3%	1.0%	0.9%
Australian Dollar	USD	-1.9%	3.0%	-2.7%	-1.4%
South African Rand	USD	-1.4%	2.8%	-18.3%	-13.2%
Swiss Franc	USD	1.0%	0.9%	1.4%	4.4%
Chinese Yuan	USD	0.0%	0.7%	-1.7%	-2.3%
Commodities & Alternatives					
Commodities	USD	-3.5%	1.0%	-27.7%	-22.1%
Agricultural Commodities	USD	-1.7%	0.7%	-11.2%	-10.8%
Oil	USD	-8.4%	9.6%	-41.3%	-35.4%
Gold	USD	2.7%	0.0%	13.7%	29.9%
Hedge funds	USD	-0.3%	0.9%	-2.0%	2.9%

Source: Bloomberg. Past performance is not indicative of future returns

Important notes

This document is for information purposes only and does not constitute any investment advice. This document is only intended for use by Newport Distribution Ltd and their clients. This does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at
The Rex Building, 62 Queen Street, EC4R 1EB

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.