STONEHAGE FLEMING

6 July 2020

Dear Equity Client

GLOBAL EQUITIES – 2nd Quarter 2020

World equity markets experienced a welcome recovery in the second quarter from their COVID-19 collapse. The MSCI World Index (including Emerging Markets and dividends) appreciated by +19.2% (US$ terms, +19.4% UK£ terms) over the quarter. This brought the index over the first half of the year to -6.3% (US$ terms, +0.4% UK£ terms).

The market recovered from heavily oversold positions in the first quarter. The globally synchronised strong monetary and fiscal support in the most important economies continues to be a critical factor in stabilising the capital markets. New COVID-19 infection rates and fatalities dropped throughout the northern hemisphere (apart from in the USA). China's economy reacted well to the phasing out of their lockdown. The gradual ending of lockdown measures in the rest of the world offers hope of the worst being behind us and that a global economic recovery process can begin, albeit from a very low base and possibly at a relatively moderate pace.

Investors debate the potential shape of the economic recovery, be it a V, U, W or an L-shaped one. Not many economists can, with high conviction, make a precise forecast under these uncertain circumstances. With the probability that some form of scientific solution to the pandemic can be found at some stage, and with continuing monetary and fiscal support, we hope that the worst case L-shape alternative has the lowest probability. However, the continuing risks of new infections dampen the enthusiasm for an imminent strong recovery.

While we await the outcome of the precise shape of the current economic recovery, we, importantly, nevertheless can look forward to a positive direction of travel over the medium term. This is strategically the most important view to take. Along with this, it is also our impression that this pandemic may well extend the sub-par global economic growth pattern that we've experienced since the Credit Crisis to last for even longer.

We believe low interest rates (and negative interest rates in some cases) will continue to be the investor challenge for some time to come. Along with this, the pandemic may well cause the restructuring of economic activity in some forms, from even higher utilisation of technological capacity to changes in travel patterns and office utilisation. Investors have to ensure they thoroughly understand these strategic changes and invest for the 'new future' rather than considering the apparent cheap valuations of the 'old economy' opportunities.

The 'Yearning for Growth' theme is expected to continue for some time to come. We believe our investment philosophy is withstanding the COVID-19 test, and continued expected effects, well.

We are grateful for all your support.

With best wishes.

Gerrit Smit
Partner – Head of Equity Management

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