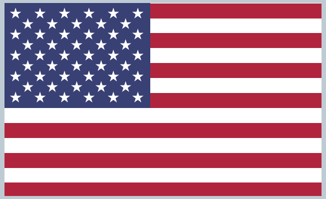
GLOBAL SNAPSHOT July 2020

Janus Henderson INVESTORS

Global money surge suggesting strong 2021 economy, rising inflation risks






Highlights:

US

Temporary job losses

The unemployment rate spiked to 14.7% in April, easing to 11.1% in June as some temporarily idled staff returned to work. The permanent jobless rate – excluding temporary layoffs – rose to 4.5% in June but remains below a post-1985 average of 5.1%.

China

Investment-led recovery

The economy staged a V-shaped rebound, with GDP and industrial output moving above Q4 2019 levels in Q2. Government investment was a major driver, rising by 16% in the year to June, with net exports also positive and lagging consumption reviving towards quarter-end.

Japan

Disappointing data

Economic weakness has been comparable with the US / Europe despite much lower COVID incidence. Industrial output fell further in May and the June manufacturing purchasing managers' survey showed little recovery, although the companion services survey was better.

Eurozone

Hopeful signs

The purchasing managers' composite output index slumped to a record low of 13.6 in April but rebounded to 48.5 in June as economies reopened. Germany and France proposed a €500 billion COVID recovery fund but face opposition from the 'frugals'.

UK

Monetary financing

The Bank of England expanded its COVID QE response by £100 billion to £300 billion, close to the Office for Budget Responsibility's May central projection of a £298 billion public sector borrowing requirement in 2020-21, since increased to £322 billion.

Emerging markets

Currency relief

After a record Q1 capital outflow, EM currencies stabilised in Q2 as the US Federal Reserve's monetary injections sated global excess demand for US dollars. The JP Morgan EM Currency Index gained 1.7% over the quarter following a 13.1% Q1 loss.

Trends to watch:

US

Monetary surge

Annual broad money growth of 25.7% in May was the fastest since WW2 and suggests a pick-up in inflation in 2021-22 barring an unprecedented velocity collapse and / or dramatic H2 reversal – unlikely given ongoing monetary deficit financing.

China

Credit acceleration

Tight credit held back the economy in 2019 but COVID woes were the trigger for a reopening of the taps, reflected in a sharp rise in loan approvals. Money growth has lagged far behind the US but the gap may narrow significantly during H2.

Japan

Consumer gloom

Consumer confidence has remained above 2011-12 levels in the US and Europe but crashed beneath the Global Financial Crisis (GFC) low in Japan despite a better COVID experience. Domestic gloom may cause the recovery to lag despite export exposure to a Chinese rebound.

Eurozone

Unemployment risk

Temporary job support schemes have prevented a US-style unemployment spike but consumers are the most pessimistic about labour market prospects since the GFC. The gloom is probably overdone and a solid H2 economic recovery may contain a jobless rise.

UK

Negative rates?

The Bank of England has mooted a move to negative rates with the economy facing risks from a COVID unemployment surge and Brexit trade disruption. Pass-through of the last cut has been disappointing while more QE would raise questions about the Bank's independence.

Emerging markets

Monetary strength

Q2 currency stabilisation encouraged EM central banks to accelerate policy easing via rate cuts and in some cases QE. A GDP-weighted average of short-term rates is through its GFC low and money growth has surged across countries.

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Key market data

Equity market returns for Q2 2020 (%)	Qtr local currency	YTD local currency	Qtr Sterling	YTD Sterling	Qtr Dollar	YTD Dollar
US S&P 500	20.0	-4.0	20.4	2.9	20.0	-4.0
Japan: Topix	11.1	-9.4	11.5	-2.3	11.2	-8.8
Euro area: Euro Stoxx	16.4	-12.7	19.5	-6.3	19.1	-12.6
FTSE All-Share	9.8	-18.7	9.8	-18.7	9.4	-24.2
MSCI Far East ex Japan (US$)	-	-	15.8	2.5	15.4	-4.4
MSCI Emerging Markets (US$)	-	-	17.7	-4.3	17.3	-10.7

Source: Refinitiv Datastream, Janus Henderson Investors, index price returns, as at 30 June 2020.

Constituents:
Euro area: EU member states using euro currency (currently 19)
Asia: China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam
BRICs: Brazil, Russia, India, China
World: G10, Eastern Europe & Africa, Asia, Latin America, Middle East

Consensus GDP growth forecasts (%)	2020	2021	2022
US	-5.6	4.1	2.9
Japan	-4.9	2.5	1.1
Eurozone	-8.0	5.4	1.8
UK	-8.5	5.6	2.8
Asia ex Japan	1.3	5.5	5.2
BRICs	0.8	5.4	5.1
World	-3.7	5.0	3.3

Source: Bloomberg, economic forecasts, as at 3 July 2020. Forecast GDP = real gross domestic product. .

Bonds (%)	30 Jun 2020 yield	Qtr return	YTD return
US 10-year Treasury	0.65	0.03	13.88
Japan 10-year government bonds	0.03	-0.08	-0.41
Germany 10-year Bund	-0.50	0.28	3.14
UK 10-year Gilts	0.12	1.51	6.46
Corporate bonds: (Barclays Global Aggregate Corporate Index $)	-	6.81	1.82
High Yield: (Merrill Lynch Global High Yield $)	-	11.50	-4.22
Emerging market debt (JPM Global Emerging Markets Debt $)	-	11.21	-1.87

Source: Refinitiv Datastream, Janus Henderson Investors, as at 30 June 2020.

	Forecast P/E		Forecast EPS growth (%)	
	2020	2021	2020	2021
World	22.0	17.0	-19.1	29.0
Developed	23.1	17.9	-21.1	28.9
Emerging markets	16.3	12.6	-7.5	29.2
UK	18.2	13.7	-36.1	32.8
US	25.1	19.7	-20.0	27.6
Eurozone	21.3	15.4	-30.6	38.8
Japan	19.4	18.7	-29.2	3.8

Source: Refinitiv Datastream, Janus Henderson Investors, and IBES (Institutional Brokers' Estimates System). Estimates for MSCI Indices as at 30 June 2020. Forecast EPS (earnings per share), Forecast P/E (price-to-earnings ratio).

Consensus inflation forecasts (CPI %)	2020	2021	2022
US	0.8	1.7	2.0
Japan	-0.1	0.2	0.7
Eurozone	0.4	1.1	1.3
UK	0.9	1.4	1.7
Asia ex Japan	2.6	2.3	2.5
BRICs	3.1	2.6	2.8
World	2.0	2.5	2.9

Source: Bloomberg, economic forecasts, as at 3 July 2020. Forecast CPI = consumer price index.

Currencies and commodities	30 Jun 2020	Qtr change (%)	YTD change (%)
Yen/$	107.89	-0.06	-0.73
Yen/£	133.30	-0.42	-7.41
$/£	1.24	-0.35	-6.73
Euro/$	0.89	-2.31	-0.06
Euro/£	1.10	-2.65	-6.79
S&P GSCI Total Return Index $	1650.79	10.47	-36.31
Brent oil ($/barrel)	41.25	82.52	-37.79
Gold bullion ($/Troy oz)	1783.66	10.64	17.31

Source: Refinitiv Datastream, Janus Henderson Investors, as at 30 June 2020.

The above data is intended for illustration purposes only and is not indicative of the historical or future performance or the chances of success of any particular strategy. References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security.

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Multi Asset Team: asset allocation dashboard

BONDS

	Outlook	Comments
Global corporate	◆	Huge volatility as spreads widened in the liquidity driven sell-off. Spreads have tightened and yields fallen, but could offer long-term upside potential.
UK gilts	▼	Historically low yields limit upside but still has a limited role as a hedging asset. Other bond assets have room for spread compression and appear less expensive.
Global sovereign	◆	Historically low yields limit upside but still has a role as a hedging asset. US Treasuries are perhaps the most compelling given more room for capital returns.
Emerging market debt	◆	Country-specific risks remain a headwind but tempering US dollar strength and spreads that remain at elevated levels may offer some interesting opportunities.
High yield	◆	The looming default cycle is a likely headwind but central bank buying is a game changer. Economic backdrop still challenging for these equity hybrids.

EQUITIES

	Outlook	Comments
UK	◆	Oil and dividend cuts have hurt this high yielding international market. Any sterling strength also drives relative returns across FTSE 100 stocks.
Europe	◆	A high beta cyclical region with huge fiscal stimulus and attractive valuations, but political and virus challenges limit conviction.
US	▼	Performance has been driven by increasingly narrow sectors making the headline market level vulnerable as the global virus outlook continues to challenge investors.
Japan	◆	Performance has offered diversification versus other markets and corporate activity is evolving, but is highly sensitive to the global macro backdrop.
Asia	◆	Asia was first into the crisis and its markets have led the way out. Positive virus news could benefit this economically-sensitive region.
Global emerging markets	▼	Fears about the virus feeding into Latin America are building as China and Asia begin to exit the crisis and markets recover.

CURRENCIES

	Comments
£/$	Huge US Fed stimulus and high yield asset purchases may have offered a route to US dollar weakness, but Brexit and risks to trade loom over sterling.
£/€	Europe and UK are in similar positions on COVID-19 and could potentially benefit from any US dollar weakness. Brexit trade discussions remain the unknown variable.
£/¥	Investors have perceived the yen as offering a potentially 'safe-haven' status given the positive correlations shown by many asset classes.

ALTERNATIVES

	Comments
Property	Lower bonds yields made property look attractive but not relative to history, while areas such as retail have looked unappealing.
Gold	This traditional hedging asset has been in demand by investors amid elevated volatility and in particular as the virus fades and stimulus drives inflation over the medium term.
Oil	OPEC production cuts amid the oil war at the start of 2020 have been positive but may not be enough. Pause in economic activity continues to weigh on demand.

Positive ▲ Neutral ◆ Negative ▼

Source: Janus Henderson Investors at 30 June 2020. These comments reflect the views of Janus Henderson's UK-based Multi-Asset Team at quarter end. They do not represent a Janus Henderson house view or the views of individual fund managers and should not be construed as investment advice.

Janus Henderson
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