CITY OF LONDON
Investment Management Company Limited

Developed Markets Quarterly Outlook

August 2020*

Overview

Vaccine Hope Springs Eternal

The repercussions of the COVID-19 pandemic continue to dominate the global economic outlook. Countries are locked in a race between ending fiscal income support and searching for a vaccine. Yet, the vaccine's arrival may not be the panacea many expect and could herald a premature end of policy accommodation. If the search is not successful, many economies face a fiscal cliff by year-end when most income support will expire, imperiling the recovery.

During the May-July period, the MSCI ACWI returned a solid 13.4% as many countries began to lift mobility restrictions, businesses reopened and economies began to recover. Although the pandemic engulfed many EM countries during the period, the MSCI EM outperformed the overall index with a 17.8% gain. This largely reflected the successful policy response to the virus in China, Korea and Taiwan, which account for two-thirds of the EM index.

As restrictions were eased, clusters, new peaks or second waves of outbreaks appeared, hampering the recovery that was getting underway. The initial outbreak had hit the Eurozone, the UK and Japan particularly hard (in terms of the contraction in activity in Q2), but it is the speed of the recovery that will ultimately matter more. Here, the early indications are particularly good for core Europe (with several recent activity readings already above the pre-pandemic level), point to a lagging recovery in Japan and suggest a middling performance in the US.

While the recovery is naturally incomplete at this juncture, it is also likely to follow a shallower path than expected prior to the pandemic. It is particularly at risk in the US where a premature end to the emergency support measures could halt it in its tracks. Negotiations in Congress on the next phase of support are thus key in order to avoid a fiscal cliff. A similar threat exists in Japan, which struggles to get businesses to shut for fear of income loss.

The emergency packages are intended to provide a temporary remedy until the pandemic is vanquished. This can only be achieved by acquiring widespread immunity, either naturally or via a vaccine. Given current infection rates, it would take a very long (and economically unsustainable) time to achieve general population immunity. Hopes therefore rest on the development of a vaccine.

Yet, a vaccine does not necessarily represent the fork in the road that leads to one of two binary outcomes. Indeed, it appears that a vaccine may afford some protection for some time, but not be able to eliminate the disease completely (such as polio). This would mean a need for repeat injections, which raises questions of affordability and of scalability. It is also not clear whether it would benefit all (ethnic and age) groups equally and what the long term or side effects may be. In turn, this could limit public acceptance and the widespread adoption of the vaccine. Some commentaries have suggested that the vaccine may limit the severity of the infection but not be able to avoid it altogether. While a boon to many potential sufferers, a vaccine would therefore not be the panacea it is commonly perceived to be. The result is that economies may need to operate at 75-90% of pre-pandemic levels in their attempts to offer sufficient safeguards to people.

Market Strategy

Our new allocation reflects these considerations. As a result, we have downgraded the **US** to *neutral*, as we see the recovery at risk from insufficient policy support. Conversely, devising an effective vaccine that overcomes the above-mentioned hurdles could prompt the Fed to become less accommodative. At the same time, it would remove some of the upside from internet/tech stocks which have been the key drivers of the US stock market (excluding them leaves the market on par with its DM peers). Finally, we also see a risk to the US dollar from the convergence of US real yields to German ones, in negative territory.

On the other hand, we upgrade the **Eurozone** to *overweight*. Despite recurrent, localised outbreaks authorities have learnt to respond well and a swift recovery is underway in part of the region. What is more, thanks to the European Recovery Fund, a two-pronged policy approach is now at hand that overcomes the previous problem of insufficient fiscal capacity amongst the more indebted member states.

Elsewhere, we downgrade **Canada** to *underweight* as weak oil prices weigh on the economy and upgrade **Switzerland** to *overweight* as Swiss equities provide relatively cheap defensive exposure.

Global Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
US	↓			■		
Canada	↓		■			
Eurozone	↑				■	
Switzerland	↑				■	
UK	–	■				
Japan	–			■		
Australia	–				■	
EM	–				■	

International Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
Canada	↓		■			
Eurozone	↑				■	
Switzerland	↑				■	
UK	–	■				
Japan	–			■		
Australia	–				■	
EM	–				■	

Note: Up/down arrows indicate a positive/negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

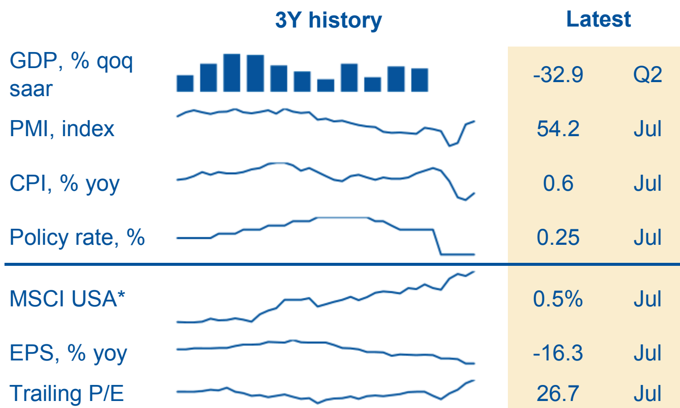
Source: City of London Investment Management

**The publication reflects asset performance up to 31 July, 2020, and macro events and data releases up to 12 August, 2020, unless indicated otherwise.*

United States

NW (Global Index) ↓

The economy has embarked on its comeback following the easing of restrictions, but the recovery hinges on fiscal support until a vaccine becomes available.



	3Y history	Latest	
GDP, % qoq saar		-32.9	Q2
PMI, index		54.2	Jul
CPI, % yoy		0.6	Jul
Policy rate, %		0.25	Jul
MSCI USA*		0.5%	Jul
EPS, % yoy		-16.3	Jul
Trailing P/E		26.7	Jul

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

While the US economy took a significant hit in Q2 and COVID-19 infections spread rapidly to a total of 5 million, its stockmarket marginally outperformed the MSCI ACWI by 0.5% points over the past three months.

Economic output registered its largest quarterly drop of the post-war period in Q2, yet the 32.9% qoq saar (9.5% qoq) contraction remained within expectations and is likely to be followed by a double-digit expansion in Q3, albeit not of the same extent. More interesting than the fall and the immediate rebound is what could come next. More than is usually the case, quarterly GDP figures reveal the extent to which the outlook depends on fiscal policy. Given the recent surge in unemployment, household income unsurprisingly dropped sharply in Q2. Yet, the $2.3 trn in income support provided by the government led to a dramatic rise in personal savings, partly out of a precautionary motive and partly for lack of opportunities to spend. Households have so far benefited both from supplementary unemployment insurance benefits (additional $600/week) and stimulus checks under the CARES Act. These benefits expired at end-July and could significantly dent consumption if not renewed. While it is likely that Congress approves a fourth round of stimulus measures worth $1 trn, no agreement has been struck yet. But even if new measures are forthcoming, they will only be temporary and their likely withdrawal by the end of the year represents a potential threat to the recovery.

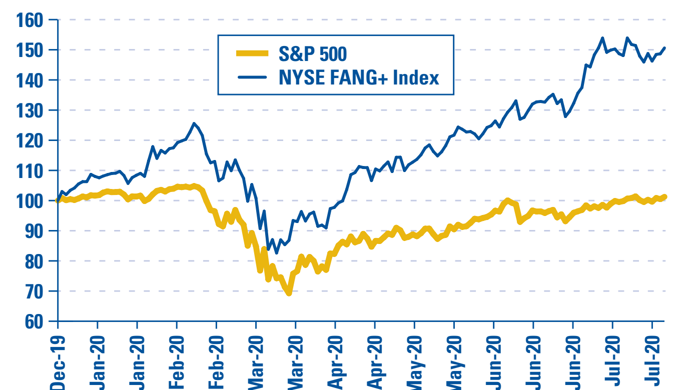
Beyond the recovery, several other factors matter for the US outlook. One is the outcome of the elections for the presidency and the senate. Former VP Joe Biden currently leads the polls by a solid margin, but if the rate of new infections slows, racial tensions abate and the hope for a vaccine rises, this lead could yet evaporate over the coming three months. A Biden presidency would invariably mean higher taxes, but they are set to be highly progressive, boosting middle-class disposable income and thus spending power. It would also likely engage more constructively with China and Europe and be more consistent in dealing with Russia. Either candidate would need to impose a measure of fiscal austerity next year, following the unprecedentedly large deficits of the last several years. Historically, markets rarely sold off post-election. Markets weaken ahead of elections as they dislike uncertainty, rallying once it is resolved. That said, uncertainty may linger if either presidential candidate disputes the result.

The second factor is the US dollar. Despite the headwind the country faces on both the health and the economic front, the real, trade-weighted dollar has broadly maintained its strength and stands 9-12% above its 10-, 20- and 30-year averages. As the Fed is determined to keep its foot firmly on the pedal of monetary expansion, US real yields have converged to real German Bund yields in negative territory. While this is supportive for the domestic stock market, it undercuts support for the US dollar.

Finally, the provision of income and general policy support is predicated on the hope that a vaccine will become available soon, with general anticipation of its arrival before the end of the year. However, even if this were the case it is unlikely to represent the fork in a binary path commonly perceived. It appears that any vaccine is more likely to limit the severity of the disease than eliminate it altogether. It may also require several inoculations, not be available at sufficient scale or at an affordable cost. Perversely, the quicker a vaccine is found, the lower the acceptance rate could be, for fear of insufficient testing and unknown side-or long term effects.

Market Strategy: The US market thus faces multiple challenges. Risks of a lapse in the recovery, a continued ebb and flow in infections and partial lockdowns and a vaccine that could not be forthcoming, be insufficiently effective or not widely accepted. If it were to be successful, it would be good news for Americans, but could also herald an earlier end to the Fed's super-accommodative policy. In that scenario, leading tech stocks would likely see their upside capped. Yet, if FAANG stocks are stripped from the S&P500, its performance is similar to the MSCI EAFE (rest of the world). With the S&P500 near its historical high and valuations elevated, downside risks are now increasing and we thus shift the US to *neutral* in a global portfolio.

Chart 1: US Equity Market Performance*



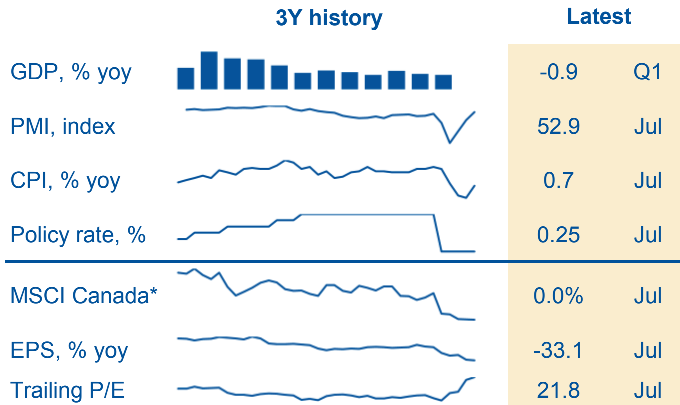
*'*100 = 31 December 2019*

Source: Bloomberg

Canada

UW (Global and Global ex-US index) ↓

Weak oil prices weigh on the Canadian economy and stock market.



**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Consensus estimates that the Canadian economy plunged by 12% qoq in Q2, similar to that of the Eurozone but worse than that of the US (-9.5% qoq). The suspension of economic activity under lockdown, a freefall in exports and lower oil prices drove the large GDP drawdown. Yet, substantial monetary easing (150bps rate cut and bond buybacks) and fiscal stimulus (15% of GDP) mean that consumers were able to save during the lockdown. They also feel safe to spend as the lockdown eases and the authorities seem to have gotten the virus under control. Construction activity also rebounded, reflecting strong housing demand boosted by low mortgage rates. Consensus expects an economic rebound in Q3 – similarly to that in most other developed countries – leaving 2020 real GDP approximately 7% below the 2019 level, the largest annual fall on record.

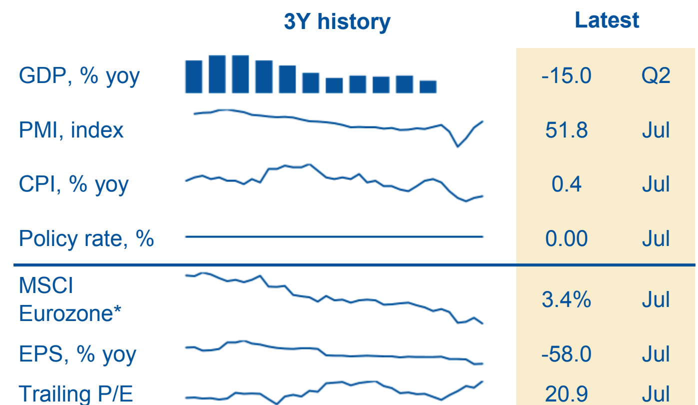
There are two downside risks for the economic outlook. First, the US economic recovery stalled this summer due to elevated COVID-19 infections and deaths, which in turn weighs on Canadian exports. Second, the large rebound in oil prices since April seems to be stalling, with WTI prices stagnating around $40 per barrel since mid-June. And yet oil prices are still meaningfully below the pre-COVID-19 level as global demand remains depressed. Weak oil prices negatively affect the energy sector's capex and employment.

Market Strategy: Canadian equities' excess return relative to global equities correlates with oil prices. That is due to the market's relatively large exposure to the energy sector (14% in MSCI Canada versus 3% in MSCI ACWI) and the Canadian dollar's commodity-related characteristics. As COVID-19 continues to spread in many countries, transport demand such as international travel is likely to remain depressed. Also, Saudi Arabia and Russia may resist a further jump in oil prices that would revive the US shale industry. More generally, the disinflationary environment does not favour energy stocks. Therefore, we downgrade Canadian equities from *neutral* to *underweight*.

Eurozone

OW (Global and Global ex-US index) ↑

More effective management of the pandemic has allowed the economy to stage a swift comeback.



**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Three key developments characterise the Eurozone landscape, albeit to different extents: 1) a resurgence of COVID-19 infections once mobility restrictions were eased, most notably in Spain, 2) a sharp rebound in consumer spending at the end of Q2 and 3) the agreement on the European Recovery Fund struck in late July, seen by some as a precursor for a more integrated EU fiscal policy or debt mutualisation. In general, they combine for a more favourable backdrop.

The recovery fund amounts to a sizeable €750 bn and had to overcome objections by the so-called "Frugal Four" (the Netherlands, Austria, Denmark and Sweden). This required 1) a reduction in the share of grants from €500 bn to €390 bn (with a commensurate increase in the loan element), 2) the insertion of an "emergency brake mechanism" (allowing member states to object to reform plans of others) and 3) the retention of a budgetary rebate for the Frugal Four. What is more, earlier plans for requirements to invest the funds in environmental projects addressing climate change have been weakened. Markets took comfort from what some viewed as a 'Hamiltonian Moment' for the EU, but it should be recognized that this measure was created in response to a specific, historically catastrophic event and not as a regular financing mechanism.

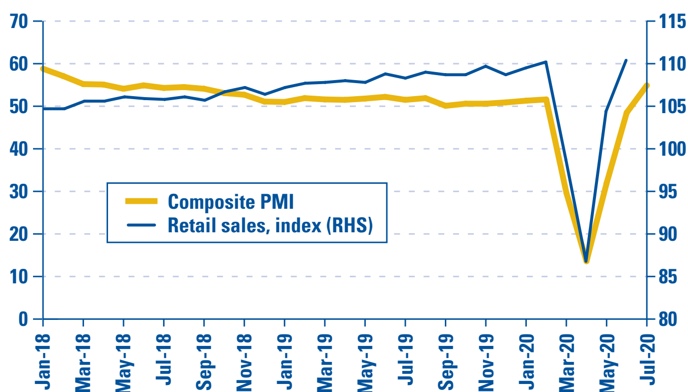
Nevertheless, it served to drive a change in market sentiment which was further underpinned by encouraging activity data. True, GDP fell 40.3% qoq saar (-12.1% qoq) in Q2, following a 13.1% decline in Q1. Within the Eurozone, Germany pulled the aggregate up, whereas France, Italy and Spain in particular dragged it down. But despite the dramatic collapse in output, unemployment has risen a mere 0.6% points since February, to 7.7% in June. More importantly, these figures belie a growth dynamic that saw activity trough in May and recover vigorously since.

Two indicators in particular are worth mentioning. The composite Eurozone PMI troughed at 13.6 in April and rose for three consecutive months thereafter. It posted a 54.8 level in July, a

reading in excess of even the pre-pandemic level. Encouragingly, it is led by the services component, which points to a recovery in consumer demand. This is also confirmed by retail sales figures, which gained another 5.7% mom in June after a 20.3% mom bounce in May and this too put the reading above the pre-virus level. The gains were broadly distributed amongst member states. It is true though that consumer confidence has not recovered as vigorously, most likely related to the resurgence of several virus clusters and renewed restrictions on mobility. Nevertheless, the increase in spending (and spending power thanks to fiscal support) has also prompted a vigorous rebound of industrial production (IP) across countries, even if it is not at pre-crisis level yet, given the complete shutdown of some sectors earlier. The auto sector in particular could become a key sector driving IP, given its sharp contraction, the extent of pent-up demand, fiscal income support and a resulting rise in the savings rate.

Across the Eurozone, member states have witnessed localised outbreaks of COVID-19 as mobility restrictions were eased. In most cases (Spain being a notable counter-example), these have quickly been brought under control and overall increases such as in France, proceed at a more gradual pace. With more effective health management than the US, the Eurozone's fatality rate of 308 per million ranks significantly lower than the 500 per million recorded in the US.

Chart 2: Eurozone PMI and Retail Sales



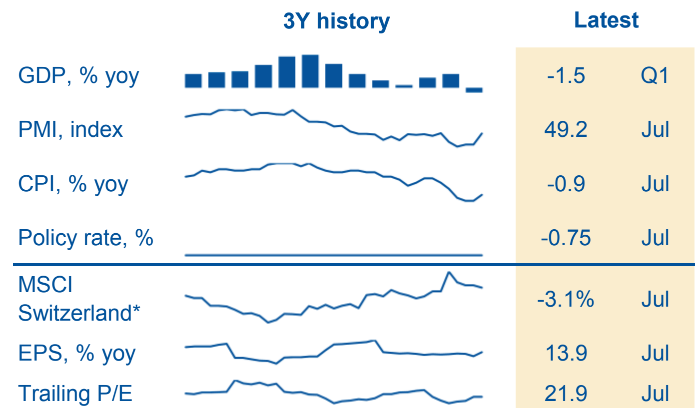
Source: Markit, Eurostat, Bloomberg

Market Strategy: Eurozone equities and the euro have been buoyed by the agreement on the recovery fund and evidence of a strong economic rebound. The market outperformed the MSCI ACWI by 3.3% points in USD terms during May-July and might have rallied further had it not been for the appearance of several virus clusters across the region and a gradual rise in the infection rate overall. With a better capacity to handle the further spread of the virus and with what is now a two-pronged approach to policy support, we shift our Eurozone allocation to *overweight*.

Switzerland

OW (Global and Global ex-US index) ↑

The Swiss economy appears more resilient than its European peers, while Swiss equities look attractive relative to other defensive assets.



	3Y history	Latest	
GDP, % yoy		-1.5	Q1
PMI, index		49.2	Jul
CPI, % yoy		-0.9	Jul
Policy rate, %		-0.75	Jul
MSCI Switzerland*		-3.1%	Jul
EPS, % yoy		13.9	Jul
Trailing P/E		21.9	Jul

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Switzerland and its vast financial system appear resilient in the face of COVID-19. The central bank's intervention in the FX market, liquidity provision and activation of the USD-CHF swap line have prevented a recession from morphing into a systemic crisis. Consensus expects GDP to contract by approximately 9% qoq in Q2, less severe than in the Eurozone (-12%) or the UK (-20%).

The economy started to recover in June on the back of lower daily COVID-19 cases, easing lockdowns and fiscal stimulus (10.4% of 2019 GDP at the federal level). Indeed, the KOF Economic Barometer, a leading indicator of the Swiss business cycle, substantially rebounded to 85.7 in July from the historical low of 49.6 in May, though it still remains some way from the pre-virus level of 101.7. The improvement was broad-based across manufacturing, private consumption, construction and foreign demand. Only the hospitality sector lags behind, a common trend in DMs.

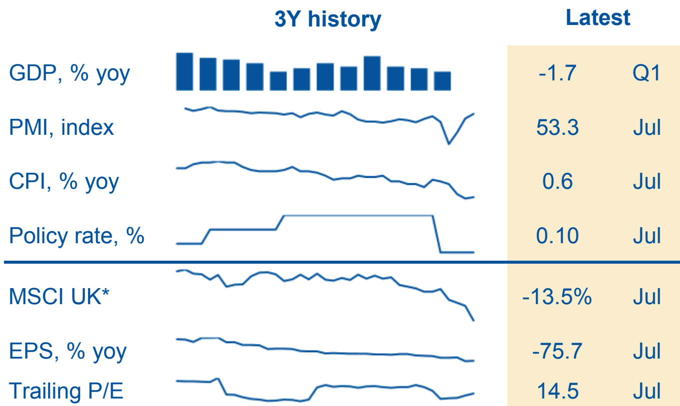
Consensus expects a strong GDP rebound in Q3, followed by moderating growth towards its potential rate in 2021. That said, the economic outlook for the open Swiss economy is heavily influenced by the course of the pandemic in Europe. For instance, new physical distancing or even lockdowns in Europe in the case of resurgent infections could derail the economic recovery.

Market Strategy: Valuations for the MSCI Switzerland look attractive. Its trailing P/E trades at a 10% discount to that of MSCI ACWI, substantially cheaper than the five-year average of a 22% premium. The earnings outlook also looks robust relative to that of the US, another defensive market. For instance, the forward 12-month EPS was revised down 10% year-to-date (ytd) for Swiss equities, a smaller downward revision than for US equities (15%). And yet Swiss equities marginally underperformed US equities by approximately 3% points ytd. That suggests the former's potential to catch up. Therefore, we upgrade Swiss equities from *neutral* to *overweight*.

United Kingdom

UW (Global and Global ex-US index)

Fear about the virus, low government approval ratings and limited progress on Brexit negotiations may temper the economic recovery.



**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

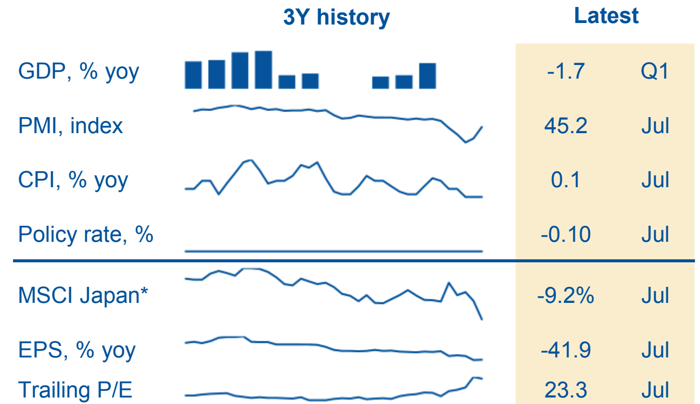
The UK economy suffered more than other developed economies did in Q2. GDP plunged by 20% qoq due to the government's delayed public response to COVID-19, confusing messaging and higher death tolls per million than other DMs. Looking ahead, consensus expects a strong rebound in Q3 and further growth in Q4 in the UK as it does for other DMs, but the UK's recovery is full of risks. First, low approval ratings of the government's approach to COVID-19 (including the steps to reopen the economy) exacerbate public fear about the virus which weighs on consumer confidence. For instance, a higher percentage of people still choose to work from home and avoid city centres in London than in other European capitals, negatively affecting UK retail and hospitality sectors. Second, the government may phase out its various fiscal support schemes later this year while COVID-19 infections (and the fear about them) may rise again as winter approaches. That may lead to a further rise in redundancy and unemployment. Third, the pandemic consumes almost all of the government's resources, leaving little for the UK's negotiations of the future relationship with the EU and other countries. For instance, although the UK and Japan are keen to reach a trade deal, progress has been slower than expected, and Japan has argued that it cannot give the UK a better deal than the one agreed with the EU. In comparison, the UK and the EU have more disagreements to iron out. A bare-bone trade agreement (e.g. no goods tariffs) seems to be the best scenario one could hope for by the end of the year with negotiations on thornier issues dragged into the future.

Market Strategy: The premium of MSCI UK's trailing P/E over that of MSCI ACWI is close to its five-year average despite significant EPS underperformance this year. The recent strength of GBPUSD seems to be driven by global factors such as higher commodity prices and a weaker USD rather than the strength of the UK economy or progress on Brexit negotiations. We remain *underweight* the UK due to the risks to the economic recovery.

Japan

NW (Global and Global ex-US index)

Japan's recovery lags other economies, but a rebound in auto production could give it a short term boost.



**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Japan's growth outlook remains hampered by the persistence and resurgence of the virus, early successes in containment notwithstanding. First, output in Japan was hit particularly hard relative to other economies, mostly due to its large auto sector, which saw production cut by about 40%. Second, the state of emergency in Japan was not lifted until late May, almost a month later than elsewhere. Finally, efforts to maintain economic activity while containing the virus are hamstrung by fractious politics. For example, some prefectures have declared a state of emergency, while others simply issued requests to close businesses, which are often not followed. This is due to the associated income loss which is only partly compensated for by government support. In response, the government has now announced that it would extend some of its measures from September until year-end.

As a result of the uncertain outlook, Japan's recovery has lagged that of its North Asian neighbours. Japanese IP in June was nearly 20% below its pre-pandemic level, while Korean IP had recovered to just 10% below its pre-pandemic level and Taiwan's is 10% above its January level. Similarly, the Consumption Activity Index recorded a bounce in June (the first complete month out of the state of emergency), but remained 10% below its pre-pandemic level, with the services component some 20% lower.

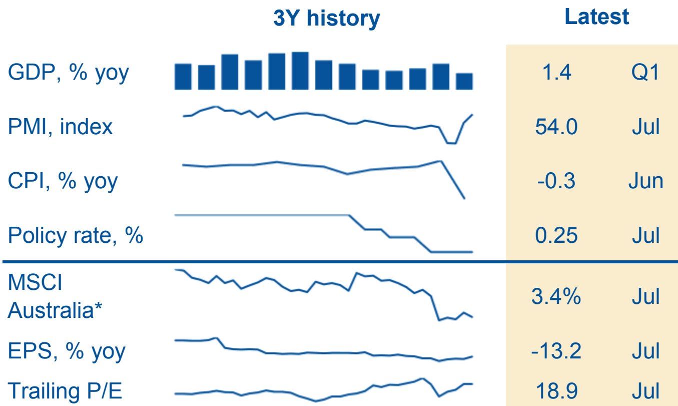
Nevertheless, plans announced by large automakers to return production to pre-pandemic levels, pent-up consumer demand (evidenced by a rise in savings) and government transfers which support household income point to a potentially swift recovery in the short term.

Market Strategy: Japan underperformed the MSCI ACWI by 9.2% points in May-July and remains at attractive valuations. A catch-up in the economic recovery would be supportive for equity markets during the coming quarter. However, beyond Q3 the outlook remains murky given the uncertainty over both the success of virus containment given the absence of a legal framework and the future of fiscal support measures. Against this backdrop, we retain our *neutral* allocation for now.

Australia

OW (Global and Global ex-US index)

External tailwinds are met with a tempered domestic recovery due to lockdowns in Victoria.



**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Economic activity in Australia resumed as soon as lockdowns were lifted in May. GDP is estimated to contract by approximately 7% qoq in Q2, a less serious downfall than most other developed countries. However, infections surged again in the state of Victoria since July, leading to renewed lockdowns there from August. Victoria generates approximately a quarter of Australian GDP. Hence, the renewed lockdowns may temper the country's economic recovery in Q3 to 1% qoq when the rest of the developed world may register a strong rebound. Nevertheless, tentative signs have emerged that the lockdown slows the spread of COVID-19 with daily infections plateauing lately.

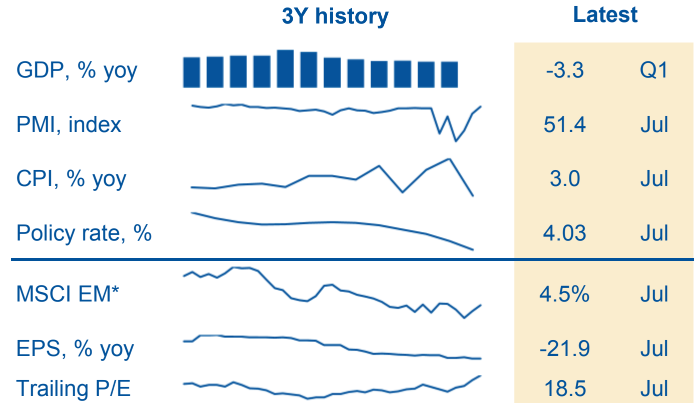
While the course of the virus outbreak in Victoria remains uncertain and heavily influences the outlook for domestic activity, the external environment remains supportive for the economy and assets. First, global manufacturing is set to recover faster than global services as the former is less affected by physical distancing measures. That supports base metal prices, a tailwind for Australian exports and the AUD. Second, China's investment-led recovery and its success in containing COVID-19 since March boost sentiment for Australian assets. Third, Australia's 10-year government bonds offer a higher yield than its DM counterparts (except for Italy), another positive factor for the AUD.

Market Strategy: MSCI Australia's trailing P/E trades at a 22% discount to that of MSCI ACWI, substantially cheaper than the five-year average of 4%. The external environment supports Australian assets. The virus outbreak in Victoria and the resulting lockdowns pose uncertainty to the near-term outlook and led to the recent underperformance of Australian equities versus the rest of the world. But there are early signs that the authorities are getting the outbreak under control. Therefore, we remain *overweight* Australia.

Emerging Markets

OW (Global and Global ex-US index)

Asian EMs have managed the pandemic best so far and their economies are thus poised for an early recovery.



**US$ total return relative to MSCI ACWI. Latest is three-month return. Economic indicators are GDP-weighted with the exception of PMI, which is value-added-weighted.*

Source: Bloomberg

As we had surmised in the previous quarter, the IMF's estimate for global activity presented in its April Outlook was on the optimistic side (despite the shock value it had then). It has since revised the expected contraction for DM from -6.1% to -8.0% for this year and for EM from -1.0% to -3.0%, although it retains a ca. 5%-point differential between the regions. Expectations for 2021 also changed: the IMF now expects 0.7% points lower growth in EM than previously (at 5.9%), but only 0.3% lower growth in DM (at 4.8%), implying a narrower growth outperformance of just 1.1% points (compared to a 2.1% point spread previously). The IMF estimates that a large part of EMs will not recover their 2019 level of real GDP until 2022.

Since April, the pandemic spread rapidly through EM countries. Of the top 15 most infected countries, 12 are now in developing countries. Nevertheless, infection and fatality rates are particularly low in China, Taiwan and Korea which comprise two-thirds of the MSCI EM. Despite recurrent outbreaks, lockdowns are very localised and sporadic there, implying that economic activity can continue largely unhindered. Another key factor for the region is the state of Sino-US relations. It is likely that tensions will continue to escalate ahead of the US elections, but could abate in case of a Biden victory. On the other hand, a second Trump term would likely witness continuing pressure on China on a wide array of fronts and could accelerate a splintering of the technology sector and online world.

Market Strategy: The discount of MSCI EM's trailing PE (relative to global equities) is close to the five-year average, and EM looks cheap on a CAPE basis. Given the preponderance of North Asian countries in the EM index, we maintain our *overweight* allocation. ◆

The information contained herein is obtained from sources believed by City of London Investment Management Company Limited to be accurate and reliable. No responsibility can be accepted under any circumstances for errors of fact or omission. Any forward looking statements or forecasts are based on assumptions and actual results may vary from any such statements or forecasts.

INTERNATIONAL EQUITY - KEY ECONOMIC AND FINANCIAL INDICATORS *(All data shown are as at end-July 2020 unless otherwise stated)*

		Macroeconomic Data													Market Performance				Forecast†	
		% change on year ago				Latest 12 months														
Weighting	Developed Market	Annual GDP Growth	Quarterly GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Budget Balance % of GDP 2020F**	Trade Balance	Current Account Balance	Foreign Reserves 2020 Latest	Foreign Reserves 2019 Year Ago	Currency vs $ 2020 Latest	Currency vs $ 2019 Year ago	Short-Term Interest Rates	Sovereign Rating S&P	% MSCI ACWI Net***	Stock Market Index (MSCI ACWI Net) US$	Change since 12/31/19 US$	Change since 12/31/19 Local	2020 P/E Forecast	3 month Currency vs $ +/-
		%	%	%	%		$ Bns	$ Bns	$ Bns	$ Bns			%		Jul. 31, 2020	Jul. 31, 2020	%	%		
Overweight	AUSTRALIA	1.4	-1.2	2.5	-0.3	-6.4	51.8	14.6	32.57	45.52	0.72	0.68	0.60	AAA	4.38	3787.91	-10.09	-11.87	20.7	-
Overweight	AUSTRIA	-12.8	-42.8	-13.5	1.1	-8.3	-3.4	11.7	7.89	8.61	1.18	1.12	-0.44	AA+	0.10	2289.11	-31.72	-35.19	16.1	-
Overweight	BELGIUM	-14.5	-48.8	11.7	0.7	-8.6	-1.2	-3.4	10.86	10.45	1.18	1.12	-0.44	AA	0.61	7848.26	-19.93	-24.00	21.0	-
Overweight	EM****	-3.3	n.a.	-6.6	3.0	-7.6	621.3	73.5	7393.71	7344.71	1612.14	1605.56	4.03	n.a.	29.82	518.47	-1.72	2.17	17.7	n.a.
Overweight	EUROZONE	-15.0	-48.4	-12.3	0.4	-9.6	2.9	4.1	327.46	304.92	1.18	1.12	0.11	n.a.	20.72	316.60	-8.99	-13.60	21.4	-
Overweight	FINLAND	-1.1	-7.6	-6.1	0.0	-8.5	-2.7	0.7	6.46	6.69	1.18	1.12	0.12	AA+	0.66	1108.41	4.75	-0.56	20.3	-
Overweight	FRANCE	-19.0	-55.2	-11.7	0.8	-11.7	-69.6	-43.0	53.75	48.83	1.18	1.12	2.00	AA	6.95	6062.74	-13.54	-17.92	24.1	-
Overweight	GERMANY	-11.7	-40.4	-11.5	-0.1	-8.8	211.6	251.4	37.90	36.85	1.18	1.12	0.11	AAA	6.04	5907.37	-3.00	-7.92	21.3	-
Overweight	IRELAND	5.1	4.8	5.1	-0.4	-7.0	76.0	-42.1	0.96	0.99	1.18	1.12	-0.51	AA-	0.44	393.66	-3.33	-8.24	25.7	-
Overweight	ITALY	-17.3	-49.4	-13.7	-0.4	-11.5	59.8	55.2	42.98	41.16	1.18	1.12	1.30	BBB	1.47	733.77	-14.90	-19.22	22.5	-
Overweight	NETHERLANDS	-0.2	-6.0	-9.7	1.7	-6.8	62.3	80.0	4.01	4.24	1.18	1.12	-0.44	AAA	2.80	18343.05	3.29	-1.88	23.1	-
Overweight	PORTUGAL	-16.5	-56.4	-14.6	0.1	-8.0	-19.4	-1.5	5.30	8.78	1.18	1.12	-0.44	BBB	0.11	168.38	-0.64	-5.68	23.1	-
Overweight	SPAIN	-22.1	-74.0	-9.6	-0.6	-11.5	-52.8	4.3	54.19	54.23	1.18	1.12	-0.44	A	1.52	2520.12	-22.34	-26.28	18.9	-
Overweight	SWITZERLAND	-1.5	-10.4	0.8	-0.9	-5.1	41.8	79.8	896.14	778.29	0.91	0.97	-0.66	AAA	6.67	14693.70	2.16	-4.03	20.2	-
Neutral	DENMARK	-0.3	-8.0	-2.4	0.5	-7.4	13.4	27.3	62.06	63.03	6.31	6.66	-0.60	AAA	1.59	34099.47	19.40	12.97	30.0	-
Neutral	ISRAEL	0.7	-7.0	6.4	-1.1	-10.5	-21.4	32.9	145.50	118.46	3.41	3.48	0.08	AA-	0.42	144.69	4.83	4.43	14.3	-
Neutral	JAPAN	-1.7	-2.2	-17.7	0.1	-11.0	-28.0	155.4	1306.50	1256.44	106.97	105.33	-0.13	A+	15.54	6228.54	-8.60	-11.07	18.3	-
Neutral	NEW ZEALAND	-0.2	-6.4	2.9	1.5	-8.2	-0.8	-5.6	17.76	17.54	0.66	0.64	0.05	AA	0.21	750.35	13.05	14.50	40.2	+
Neutral	NORWAY	0.2	-8.4	-7.2	1.3	0.0	10.7	15.3	70.06	65.94	8.92	8.91	0.27	AAA	0.35	7235.28	-16.33	-13.56	19.1	-
Neutral	SINGAPORE	-13.2	-42.9	-6.7	-0.5	-13.5	95.7	56.2	298.43	263.05	1.37	1.39	0.38	AAA	0.69	987.17	-21.23	-19.67	15.6	-
Neutral	SWEDEN	0.4	0.4	-8.2	0.5	-7.4	4.1	23.7	44.53	51.44	8.68	9.58	0.01	AAA	2.08	24948.26	3.59	-3.24	20.7	-
Underweight	CANADA	-13.8	-8.2	-36.3	0.7	-11.2	-18.3	-30.5	74.70	74.93	1.32	1.32	0.22	AAA	6.58	5393.94	-7.70	-4.66	21.4	-
Underweight	HONG KONG	-9.0	-0.4	-4.6	0.7	-9.6	-45.6	47.8	442.22	437.67	7.75	7.85	0.41	AA+	2.11	61221.34	-10.42	-10.86	17.6	-
Underweight	UK	-21.7	-81.6	-12.5	0.6	-13.0	30.1	-93.2	134.91	125.60	1.31	1.21	0.08	AA	8.87	5342.70	-22.18	-21.46	18.5	-

*Note: S&P credit rating shown is long-term foreign currency rating. *% change in GDP on previous quarter, annual rate. **Bloomberg consensus forecast. ***MSCI All Country World ex USA Index Daily Total Return Net. ****IP data from CPB; Currency level from MSCI EM Currency Index; GDP, CPI, budget and interest rate data from Bloomberg. †Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.*

Source: Bloomberg, City of London Investment Management

GLOBAL EQUITY - KEY ECONOMIC AND FINANCIAL INDICATORS *(All data shown are as at end-July 2020 unless otherwise stated)*

		Macroeconomic Data												Market Performance				Forecast†	
		% change on year ago				Latest 12 months													
	Developed Market	Annual GDP Growth	Quarterly GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Budget Balance % of GDP 2020F**	Trade Balance	Current Account Balance	Foreign Reserves 2020 Latest	Foreign Reserves 2019 Year Ago	Currency vs $ 2020 Latest	Currency vs $ 2019 Year ago	Short-Term Interest Rates	Sovereign Rating S&P	% MSCI ACWI Net***	Stock Market Index (MSCI ACWI Net) US$	Change since 12/31/19 US$	Change since 12/31/19 Local	2020 P/E Forecast	3 month Currency vs $ +/-
		%	%	%	%		$ Bns	$ Bns	$ Bns	$ Bns			%		Jul. 31, 2020	Jul. 31, 2020	%	%		
Overweight	AUSTRALIA	1.4	-1.2	2.5	-0.3	-6.4	51.8	14.6	32.57	45.52	0.72	0.68	0.60	AAA	1.84	3787.91	-10.09	-11.87	20.7	-
Overweight	AUSTRIA	-12.8	-42.8	-13.5	1.1	-8.3	-3.4	11.7	7.89	8.61	1.18	1.12	-0.44	AA+	0.04	2289.11	-31.72	-35.19	16.1	-
Overweight	BELGIUM	-14.5	-48.8	11.7	0.7	-8.6	-1.2	-3.4	10.86	10.45	1.18	1.12	-0.44	AA	0.25	7848.26	-19.93	-24.00	21.0	-
Neutral	EM****	-3.3	n.a.	-6.6	3.0	-7.6	621.3	73.5	7393.71	7344.71	1612.14	1605.56	4.03	n.a.	12.54	518.47	-1.72	2.17	17.7	n.a.
Neutral	EUROZONE	-15.0	-48.4	-12.3	0.4	-9.6	2.9	4.1	327.46	304.92	1.18	1.12	0.11	n.a.	8.72	316.60	-8.99	-13.60	21.4	-
Neutral	FINLAND	-1.1	-7.6	-6.1	0.0	-8.5	-2.7	0.7	6.46	6.69	1.18	1.12	0.12	AA+	0.28	1108.41	4.75	-0.56	20.3	-
Neutral	FRANCE	-19.0	-55.2	-11.7	0.8	-11.7	-69.6	-43.0	53.75	48.83	1.18	1.12	2.00	AA	2.92	6062.74	-13.54	-17.92	24.1	-
Neutral	GERMANY	-11.7	-40.4	-11.5	-0.1	-8.8	211.6	251.4	37.90	36.85	1.18	1.12	0.11	AAA	2.54	5907.37	-3.00	-7.92	21.3	-
Neutral	IRELAND	5.1	4.8	5.1	-0.4	-7.0	76.0	-42.1	0.96	0.99	1.18	1.12	-0.51	AA-	0.18	393.66	-3.33	-8.24	25.7	-
Neutral	ITALY	-17.3	-49.4	-13.7	-0.4	-11.5	59.8	55.2	42.98	41.16	1.18	1.12	1.30	BBB	0.62	733.77	-14.90	-19.22	22.5	-
Neutral	NETHERLANDS	-0.2	-6.0	-9.7	1.7	-6.8	62.3	80.0	4.01	4.24	1.18	1.12	-0.44	AAA	1.18	18343.05	3.29	-1.88	23.1	-
Neutral	PORTUGAL	-16.5	-56.4	-14.6	0.1	-8.0	-19.4	-1.5	5.30	8.78	1.18	1.12	-0.44	BBB	0.05	168.38	-0.64	-5.68	23.1	-
Neutral	SPAIN	-22.1	-74.0	-9.6	-0.6	-11.5	-52.8	4.3	54.19	54.23	1.18	1.12	-0.44	A	0.64	2520.12	-22.34	-26.28	18.9	-
Neutral	SWITZERLAND	-1.5	-10.4	0.8	-0.9	-5.1	41.8	79.8	896.14	778.29	0.91	0.97	-0.66	AAA	2.81	14693.70	2.16	-4.03	20.2	-
Neutral	DENMARK	-0.3	-8.0	-2.4	0.5	-7.4	13.4	27.3	62.06	63.03	6.31	6.66	-0.60	AAA	0.67	34099.47	19.40	12.97	30.0	-
Neutral	ISRAEL	0.7	-7.0	6.4	-1.1	-10.5	-21.4	32.9	145.50	118.46	3.41	3.48	0.08	AA-	0.18	144.69	4.83	4.43	14.3	-
Neutral	JAPAN	-1.7	-2.2	-17.7	0.1	-11.0	-28.0	155.4	1306.50	1256.44	106.97	105.33	-0.13	A+	6.54	6228.54	-8.60	-11.07	18.3	-
Neutral	NEW ZEALAND	-0.2	-6.4	2.9	1.5	-8.2	-0.8	-5.6	17.76	17.54	0.66	0.64	0.05	AA	0.09	750.35	13.05	14.50	40.2	+
Neutral	NORWAY	0.2	-8.4	-7.2	1.3	0.0	10.7	15.3	70.06	65.94	8.92	8.91	0.27	AAA	0.15	7235.28	-16.33	-13.56	19.1	-
Neutral	SINGAPORE	-13.2	-42.9	-6.7	-0.5	-13.5	95.7	56.2	298.43	263.05	1.37	1.39	0.38	AAA	0.29	987.17	-21.23	-19.67	15.6	-
Neutral	SWEDEN	0.4	0.4	-8.2	0.5	-7.4	4.1	23.7	44.53	51.44	8.68	9.58	0.01	AAA	0.88	24948.26	3.59	-3.24	20.7	-
Neutral	UNITED STATES	-9.5	-32.9	-10.8	1.0	-17.4	-553.7	-464.4	41.66	42.04	1.00	1.00	0.00	AA+	57.93	9002.47	3.30	3.30	25.6	uc
U/W	CANADA	-13.8	-8.2	-36.3	0.7	-11.2	-18.3	-30.5	74.70	74.93	1.32	1.32	0.22	AAA	2.77	5393.94	-7.70	-4.66	21.4	-
U/W	HONG KONG	-9.0	-0.4	-4.6	0.7	-9.6	-45.6	47.8	442.22	437.67	7.75	7.85	0.41	AA+	0.89	61221.34	-10.42	-10.86	17.6	-
U/W	UK	-21.7	-81.6	-12.5	0.6	-13.0	30.1	-93.2	134.91	125.60	1.31	1.21	0.08	AA	3.73	5342.70	-22.18	-21.46	18.5	-

*Note: S&P credit rating shown is long-term foreign currency rating. *% change in GDP on previous quarter, annual rate. **Bloomberg consensus forecast. ***MSCI All Country World Index Daily Total Return Net. ****IP data from CPB; Currency level from MSCI EM Currency Index; GDP, CPI, budget and interest rate data from Bloomberg. †Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.*

Source: Bloomberg, City of London Investment Management

CITY OF LONDON
Investment Management Company Limited

Contacts

Macroeconomic Analysis

Michael Hart, London Office
Phone: 011 44 207 711 1558
E-Mail: michael.hart@citlon.co.uk

Lyndon Barreto, CFA, London Office
Phone: 011 44 207 711 1551
E-Mail: lyndon.barreto@citlon.co.uk

Mike Liu, CFA, London Office
Phone: 011 44 207 860 8318
E-Mail: mike.liu@citlon.co.uk

London Office
77 Gracechurch Street
London EC3V 0AS
United Kingdom
Phone: 011 44 20 7711 0771
Fax: 011 44 20 7711 0774
E-Mail: info@citlon.co.uk

Philadelphia Office
The Barn, 1125 Airport Road
Coatesville, PA 19320
United States
Phone: 610 380 2110
Fax: 610 380 2116
E-Mail: info@citlon.com

Seattle Office
Plaza Center
10900 NE 8th Street, Suite 1414
Bellevue, WA 98004
United States
Phone: 206 505 2587

Singapore Office
20 Collyer Quay
10-04
Singapore 049319
Phone: 011 65 6236 9136
Fax: 011 65 6532 3997

Dubai Office
Unit 2, 2nd Floor
The Gate Village Building 1
Dubai International Financial Centre
P.O. Box 506695, Dubai, United Arab Emirates
Phone: 011 971 4 249 8402
Fax: 011 971 4 437 0510

Website
www.citlon.com

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