CHARLES STANLEY

Cornerstone Quarterly Review Q2 2020

Cornerstone Asset Management

For authorised intermediaries and professional investors only

LATEST COMMENTARY

The Covid-19 infection is still spreading globally, but economies throughout the world are trying to tentatively reopen in order to preserve jobs and limit the damage to businesses. Only now is the financial impact of this infection and lockdowns introduced by governments to halt the spread starting to be revealed in data and corporate earnings. The closure of businesses has led to a rapid and significant rise in unemployment, although government schemes around the world are trying to make up for some of the lost wages in order to prevent a sharper halt in consumer spending making the situation worse.

Against this background, the second quarter of 2020 saw a strong recovery in share markets around the world. This was fuelled by the enormous monetary expansion led by the USA but also present in Europe and Japan, and by hopes of improving turnover and profits for companies as economies came out of lock down. The standout winner amongst the stock markets was Nasdaq, the technology heavy US based index. Up by more than 30%, this benefitted from the way in which many of the companies on that index saw their online business grow at a time of bans on activities that require people coming together for an event or a purchase. Government bonds had a quieter quarter after the good gains of the first three months of the year, despite the heavy official buying. Sterling corporate bonds did better than government ones as Central Banks announced support programmes for them and for the underlying companies that had borrowed the money. Inflation linked bonds were also in demand despite the immediate sharp falls in inflation, with investors looking ahead to a possible upturn in inflation as a result of the ultra-low interest rates and the aggressive promotion of more credit.

END OF QUARTER ASSET ALLOCATION (%)

	UK Equities	US Equities	Europe (ex UK) Equities	Japanese Equities	Asian Equities	Other Overseas Eq.	UK Property	Global Property	Bonds	Cash
Passive Growth 1	3.1	8.1	1.6	0.0	0.8	0.0	0.0	0.0	81.8	4.6
Passive Growth 2	3.9	13.7	1.7	2.0	2.6	4.1	2.1	1.0	64.2	4.6
Passive Growth 3	4.1	19.1	2.8	3.4	2.8	13.4	2.1	2.0	45.9	4.3
Passive Growth 4	3.9	26.2	4.3	5.0	3.1	17.0	2.8	2.3	30.8	4.6
Passive Growth 5	4.5	32.1	5.4	6.4	5.3	20.4	2.9	2.7	16.2	4.1
Passive Growth 6	5.2	33.7	6.1	7.2	8.5	24.2	3.3	2.4	5.2	4.2
Passive Income 3	10.4	19.6	2.7	0.0	4.6	6.8	0.0	4.1	47.9	3.7

Source: Charles Stanley, APX - 30 June 2020

Green Allocation change > 2% in quarter
Red Allocation change < 2% over quarter

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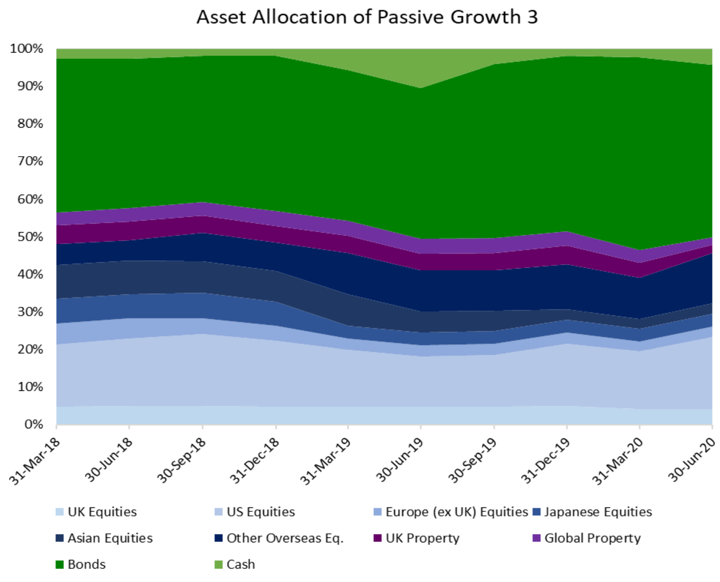
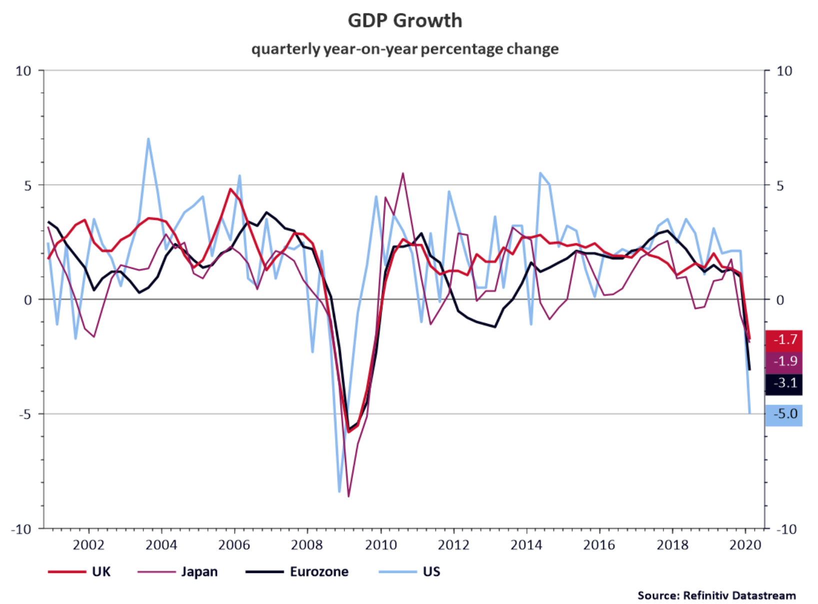


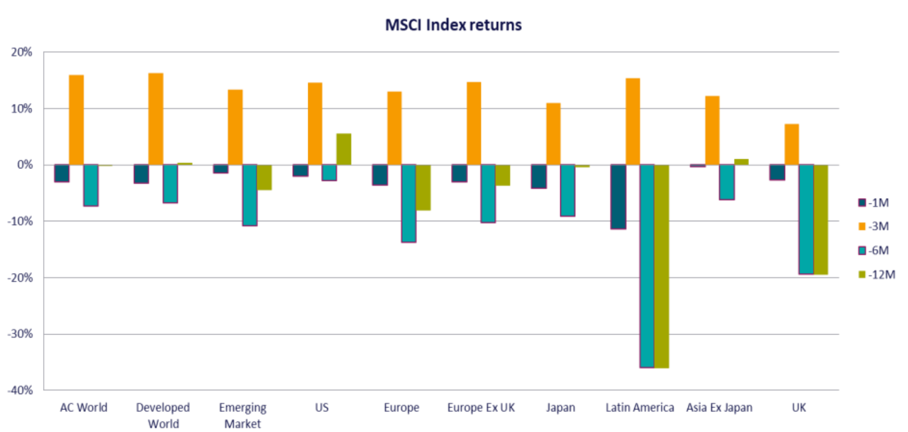
Equities staged an impressive recovery following the falls in March. While this did leave to a pick up in the overall allocation to equities, we also increased our US Equities and introduced the iShares Healthcare Innovation ETF.

In this period, we reduced our allocation to property and short dated corporate bonds which have a higher representation of BBB rated securities.

The collapse in global growth is likely to be be more than double what was experienced in the GFC.

Developed market GDP likely to contract by 5% this year and unlikely to recover to pre pandemic levels until end 2021 at the earliest.





Source: Thompson Reuters Refinitiv, Prices Returns are showed in local currency. Data as at June 30, 2020

The US markets dominated global equity market growth over the last 5 years, yet in the post Coronavirus world most countries and timeframes are now showing similar rates of negative growth

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MODEL PERFORMANCE (%)

	Quarter	1 Year	5 Years	Benchmark Quarter	Benchmark 1 Year	Benchmark 5 Years	Benchmark
Passive Growth 1	4.2	0.4	16.7	0.3	1.7	13.9	CPI PLUS 1%
Passive Growth 2	6.0	-0.3	19.1	0.5	2.7	19.7	CPI PLUS 2%
Passive Growth 3	9.0	1.3	27.4	0.8	3.7	25.7	CPI PLUS 3%
Passive Growth 4	11.5	2.3	33.8	1.0	4.7	31.9	CPI PLUS 4%
Passive Growth 5	13.8	2.8	39.6	1.3	5.7	38.3	CPI PLUS 5%
Passive Growth 6	15.5	3.2	41.2	1.5	6.7	45.1	CPI PLUS 6%
Passive Income 3	7.4	-4.7	23.7	0.8	3.7	25.7	CPI PLUS 3%

TOP & BOTTOM PERFORMANCE CONTRIBUTORS (Q2 2020)

	Top	Bottom
Passive Growth 1	L&G Sterling Corp Bond Index C Inc	iShares EURO STOXX Select Dividend 30 ETF
Passive Growth 2	X-trackers S&P 500 UCITS ETF GBP Hedged ETF	iShares FTSE EPRA/NAREIT UK Property ETF
Passive Growth 3	iShares Core MSCI Emerging Markets IMI ETF	iShares Healthcare Innovation UCITS ETF USD (Acc)
Passive Growth 4	Invesco Nasdaq 100 GBP Hedged	Invesco US Treasury Bond 7-10 Years UCITS ETF GBP Hedged
Passive Growth 5	Invesco Nasdaq 100 GBP Hedged	Invesco US Treasury Bond 7-10 Years UCITS ETF GBP Hedged
Passive Growth 6	Invesco Nasdaq 100 GBP Hedged	Invesco US Treasury Bond 7-10 Years UCITS ETF GBP Hedged
Passive Income 3	Fidelity US Quality Income UCITS ETF	iShares EURO STOXX Select Dividend 30 ETF

Past performance is not indicative of future performance. The value of investments may fall as well as rise and the income from them may fluctuate and is not guaranteed. Investors may not recover the amount invested. Source: Internal APX as at 30/06/2020

OUTLOOK

Prospects for the rest of the year are still uncertain and the path to a more normal social and economic environment is a long way off. There will inevitably be a degree of permanent damage to the supply side of the economy, even as restrictions are eased further. The markets are now considerably dearer than in January when compared to company profits and earnings. They are sustained by Central Bank support all the time the authorities feel they need to offer stimulus to offset the bad economic news generated by the anti-pandemic policies. The authorities also stand ready to take further action should the situation deteriorate again, for example if the recent easing of measures brings a second spike in infections later this year and in the US, they are keen to support equity-market valuations ahead of the presidential election in November.

IMPORTANT INFORMATION

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