

Looking forward

by Jackson Franks

For those of you that don't know, this Friday is the mid-point of summer in the northern hemisphere 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 six months and what the second six 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.

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Market Focus

- » 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

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.

Rest of the World/Asia

- » 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.

| Asset Class / Region | Currency | Cumulative returns | | | |
|-------------------------------------|----------|---------------------|---------------|----------|-----------|
| | | Week ending 12 June | Month to date | YTD 2020 | 12 months |
| Developed Markets 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 | Cumulative returns | | | |
|---------------------------------------|----------|---------------------|---------------|----------|-----------|
| | | Week ending 12 June | 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.

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