



Lessons from Japan

– Richard Stutley, CFA

The summer solstice, or ‘longest day of the year’, took place in the northern hemisphere just over two weeks ago, putting those of us that live here on a path of gradually shortening days towards winter. It’s not all bad news: July and August are typically the warmest months in the UK, but after that temperatures will also steadily decline. It remains to be seen whether, like other airborne viruses, COVID-19 is more infectious in winter, leading to a fresh spike in cases, but in any event we think the world is significantly better prepared for new waves and hence the impact should be smaller. Therefore, while acknowledging this risk to markets, it has not persuaded us to de-risk the portfolios further.

Coronaviruses are part of the family of viruses that includes the common cold. Colds and flu occur more regularly in the winter as a result of people spending more time indoors in close proximity to one another. Viruses carried in small droplets in the air, like COVID-19, also spread further in cold air with low humidity. Hence there is a chance that infection rates will rise again in the winter months.

Economies cannot cope with multiple rounds of shutdowns on the scale of the first quarter, but one country in particular gives hope that these measures may not be the only way to combat the virus. Despite its high population density and older population, and despite the fact that it imposed a much less stringent shutdown compared to other countries, Japan has experienced a remarkably low mortality rate thus far. Less than 1 in 100,000 Japanese citizens have died from COVID-19, almost 50 times lower than in the United States¹.

The reasons for this outcome continue to be debated. While there is limited evidence of higher immunity among Japanese citizens, one thing that is clear is that they are more familiar with the policies adopted to combat the spread of the virus. Japanese citizens started wearing face masks during the 1919 flu pandemic and the practice has never really stopped;

it is generally accepted that people suffering from colds and coughs should wear one. Japan also established a track and trace system as far back as the 1950s following a tuberculosis outbreak, that has been used to good effect during this latest public health crisis. These policies have been embraced by other countries and while the better average health of Japan’s citizens (Japan has lower incidence of heart disease and obesity) is something the rest of the world is unlikely to be able to replicate any time soon, they should contribute to better outcomes in any seasonal reoccurrence of the virus.

Seasonal reoccurrence of the virus is one of a number of key ‘known unknowns’ that we have spent time discussing as a team. We expect the policy response from now on to vary between regions and municipalities, rather than being set at the national level. Further, given how discriminatory the virus is by age, we expect to see a continued shift towards insulating the most vulnerable members of society while keeping those at lower risk as economically active as possible. Together these policies should reduce the economic impact of further waves of the virus. The better preparedness of the world is one of the reasons we remain broadly constructive on the outlook for the global economy and markets, notwithstanding pockets of the global equity market where valuations have come back too far and too fast. We remain invested in growth assets including equities and credit, while at the same time seeking to build resilience in our portfolios through multiple uncorrelated investments, including inflation linked bonds, real assets, gold and derivatives.

¹Wingfield-Hayes, R. (4 July 2020). BBC News, Tokyo. Coronavirus: Japan’s mysteriously low virus death rate

The Marketplace

- Global manufacturing PMIs show signs of recovery
- The WHO reported a one-day high in global coronavirus infections over the weekend
- Brent crude rose 4.3% ending the week at \$41.02 a barrel
- Gold ended the week flat at \$1771.29 an ounce

Market Focus

US

- June payrolls beat expectations, 4.8 million versus 3.2 million expected
- Unemployment rate fell in June to 11.1% from 13.3% though recent spikes may distort this picture
- In Florida, the number of Covid-19 cases rose by 6.4% in one day last Thursday. Texas are rolling back their re-opening of bars and restaurants as many states see infection spikes. The CDC have warned that US fatalities could reach 160K by the end of the month
- The US Technology index reached a record intraday high last week. Large cap indices were also buoyed by technology and communication stocks, whilst energy and financial stocks lagged
- US 10-year treasuries fell 0.3%. The FOMC are said to be mulling yield curve controls to normalise higher long term yields over shorter ones

Europe

- German lawmakers ended a legal standoff over the European Central Bank's bond buying, backing a monetary program seen as a key prop for the euro area's beleaguered economy

- Eurozone flash manufacturing PMI for June beat expectations, rising to 46.9 from 39.4 in May
- Francois Villeroy of the ECB said that exceptional measures introduced in the wake of the global financial crisis and the euro-area sovereign debt crisis, such as negative interest rates, quantitative easing and long-term bank loans, are here to stay
- Spain sees 49% drop in furloughed workers since lockdown peak, average of 178,000 workers are exiting the program every week

UK

- PM Boris Johnson is said to be preparing to begin phasing out the use of Huawei Tech equipment in the UK's 5G telecoms network as soon as this year.
- The finance industry is ramping up pressure on the European Union to ensure access to London financial markets, warning of major disruptions without progress toward a Brexit trade deal by the end of September
- Manufacturing PMI for June entered expansionary territory once again rising to 50.1 from 40.7 in May
- Johnson announces a fast-tracking of £5bn in spending for infrastructure projects to aid in the economic recovery

Asia/Rest of The World

- China's June services PMI came in at its highest reading in a decade at 58.4 versus 53.2 expected
- China's economic recovery steams ahead with the major blue-chip index closing at a two and half year high last Thursday. Manufacturing PMI remained in expansionary territory rising to 51.2 in June from 50.7 in May
- The Bank of Japan's quarterly survey of economic conditions showed a steep decline in manufacturing confidence, dropping to -34 for June versus -8 for March. The lowest level since 2009

Asset Class/Region	Currency	Currency returns			
		Week ending 03 July 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	4.1%	1.0%	-2.4%	5.9%
United Kingdom	GBP	0.0%	-0.2%	-17.9%	-17.4%
Continental Europe	EUR	2.2%	1.6%	-7.7%	-1.9%
Japan	JPY	-1.4%	-0.4%	-8.5%	0.8%
Asia Pacific (ex Japan)	USD	3.8%	4.0%	-2.4%	2.8%
Australia	AUD	2.7%	2.7%	-8.0%	-6.1%
Global	USD	3.3%	1.1%	-4.7%	2.4%
Emerging markets equities					
Emerging Europe	USD	-0.3%	1.5%	-23.5%	-16.9%
Emerging Asia	USD	3.9%	4.2%	0.6%	8.8%
Emerging Latin America	USD	5.2%	4.6%	-32.2%	-30.0%
BRICs	USD	4.7%	5.0%	-3.0%	3.2%
China	USD	5.2%	5.3%	9.0%	17.1%
MENA countries	USD	0.4%	1.0%	-15.6%	-16.7%
South Africa	USD	4.3%	3.1%	-21.8%	-22.4%
India	USD	3.5%	4.3%	-16.4%	-17.0%
Global emerging markets	USD	3.7%	4.0%	-6.2%	-0.1%
Bonds					
US Treasuries	USD	-0.3%	-0.1%	9.1%	10.6%
US Treasuries (inflation protected)	USD	0.2%	0.3%	6.7%	8.9%
US Corporate (investment grade)	USD	0.7%	0.6%	5.6%	9.5%
US High Yield	USD	0.3%	0.7%	-3.1%	0.4%
UK Gilts	GBP	-0.3%	-0.1%	9.6%	9.8%
UK Corporate (investment grade)	GBP	0.2%	0.3%	3.6%	5.8%
Euro Government Bonds	EUR	-0.1%	-0.1%	1.9%	1.4%
Euro Corporate (investment grade)	EUR	0.1%	0.1%	-1.0%	-0.7%
Euro High Yield	EUR	0.3%	0.3%	-4.9%	-2.5%
Japanese Government	JPY	-0.2%	0.0%	-1.1%	-2.0%
Australian Government	AUD	-0.1%	-0.2%	3.9%	4.0%
Global Government Bonds	USD	0.0%	0.1%	4.7%	5.0%
Global Bonds	USD	0.2%	0.1%	3.8%	4.8%
Global Convertible Bonds	USD	1.8%	1.1%	6.0%	10.1%
Emerging Market Bonds	USD	0.8%	0.8%	0.4%	1.1%

Asset Class/Region	Currency	Currency returns			
		Week ending 03 July 2020	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	4.9%	2.1%	-17.3%	-14.5%
Australian Property Securities	AUD	1.1%	4.6%	-19.3%	-23.9%
Asia Property Securities	USD	2.8%	4.1%	-15.2%	-15.4%
Global Property Securities	USD	3.8%	2.9%	-17.5%	-13.8%
Currencies					
Euro	USD	0.1%	0.0%	0.1%	-0.3%
UK Pound Sterling	USD	1.0%	0.7%	-6.0%	-0.8%
Japanese Yen	USD	-0.3%	0.3%	1.0%	0.3%
Australian Dollar	USD	1.0%	0.7%	-1.2%	-1.4%
South African Rand	USD	1.4%	2.0%	-17.9%	-17.5%
Swiss Franc	USD	0.2%	0.2%	2.3%	4.4%
Chinese Yuan	USD	0.2%	0.0%	-1.5%	-2.6%
Commodities & Alternatives					
Commodities	USD	4.0%	1.6%	-24.4%	-21.1%
Agricultural Commodities	USD	3.5%	1.0%	-10.1%	-9.1%
Oil	USD	4.3%	4.0%	-35.2%	-32.9%
Gold	USD	0.0%	-0.7%	16.4%	25.1%
Hedge funds	USD	0.2%	0.1%	-1.0%	2.5%

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