State Street Multi-Asset Builder Fund

STATE STREET GLOBAL ADVISORS

There May Be Trouble Ahead…

But while there's moonlight and music,

and love and romance,

let's face the music and dance…

- Nat King Cole

Raf Choudhury
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That's kind of how it feels at the moment as we head into the later part of the year. COVID-19 has been the main concern this year and I've already covered the impact a second wave could have in my previous notes. From a market perspective, it really has been a case of looking at the risks square in the face and navigating them as best we can.

However as we traverse the second half of the year there are new forms of risk ahead. Coronavirus and the impact of subsequent waves is still front of mind, but elections are nearing and creating increased uncertainty. The US elections at the start of November provide the likeliest source of increased volatility. The worst case scenario from a markets perspective would be for a contested outcome, likely if the votes show a narrow loss for Trump. He has already made comments about the election being rigged and a close call would only spur him on. That could leave the US in a temporary state of limbo. At the moment the market is expecting a democratic win. However, odds of a democratic sweep have retreated slightly over the past month and we also expect polls to tighten further. Campaigning will soon accelerate as we enter debate season and the policies of both parties will be more closely scrutinised. If the last US election taught us anything, it's that anything can happen.

However the US election is not the only risk we face. At the end of August, Prime Minister Abe of Japan surprised markets with his resignation announcement due to ongoing health reasons. There was some conjecture that he was ill as he had only just returned to work after a three-day summer break that included a hospital visit but his resignation was unexpected. With his announcement the Nikkei 225 Index sold off by over 2%[1] before recovering a third of those losses. Again the market is pricing in uncertainty. This is uncertainty surrounding who the next Prime Minister will be as well as around the long term future of "Abe-nomics".

And while the US and Japan face election uncertainty, Europe is still dealing with the fallout from Brexit. The UK and EU have until December 31, 2020 to negotiate economic and trade deals and despite the onslaught of coronavirus, extensions beyond this date have been ruled out. Tensions between the UK and Europe seem to be increasing as they try and negotiate a deal including customs rules which have been the latest topic to create angst. Talks now seem in jeopardy with the EU preparing itself in the event of a no-deal scenario to trade with the UK on World Trade Organisation terms.

As can be seen, there are plenty of events all around the world to contend with. Plenty of sources of uncertainty for markets to deal with. And plenty of risks we face and have to navigate.

[1] Source Bloomberg Finance L.P., as at 28 August 2020.

Portfolio positioning and performance[2]

Global equity markets continued their ascent in August as risk assets rallied further. This was on the back of positive economic and earnings data, vaccine developments and Fed Chair Jerome Powell's dovish comments during the annual Jackson Hole Symposium, with markets continuing to price in a strong recovery. Risks do remain however, as geopolitical tensions between the US and China increased and the number of global COVID-19 cases continued to increase with flare ups across some developed economies including the US and Europe. Our outlook remains cautiously optimistic as the sustained equity rally since March has further stretched valuations but we do acknowledge the strong sentiment flowing through markets now.

Within growth assets, local equity markets (S&P/ASX 200 Net total return Index) saw positive returns and were up 2.8% for the month. Global equity markets were also positive with the US (MSCI US Net total return local Index) up a strong 7.5%, whilst Europe (MSCI Europe Net total return local Index) and Japan (MSCI Japan Net total return local Index) were up 2.7% and 7.9% respectively. Emerging markets (MSCI EM Index Net total return local Index), posted positive returns up 2.2% underperforming developed markets. In the fixed income space, government bond yields moved higher in line with positive economic data and corporate spreads tightened resulting in positive returns for corporate bonds locally. Across our alternatives exposures, our investments in commodities added to performance but a strong Aussie dollar resulted in negative returns for our emerging markets bonds exposure.

Looking into our average positioning across the portfolio for the month of August, the Growth assets allocations have been approximately 30% for the State Street Multi-Asset Builder Fund. Our exposure preferences in August were to fixed income, alternatives and cash, relative to equities, as we balanced the strong momentum in equities versus the uncertainty in the economic outlook with the upcoming US election and US/China tensions. Performance wise, we maintained our diversified exposures across equities, fixed income and alternatives resulting in the portfolio delivering a marginally negative return in August.

[2]Bloomberg Finance, L.P. SSGA as at 31 August 2020. Past performance is not a reliable indicator of future performance. This information should not be considered a recommendation to buy or sell any security or sector shown. It is not known whether the securities or sectors shown will be profitable in the future. Characteristics are as of the date indicated, subject to change, and should not be relied upon as current thereafter. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income.

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