L&G Mixed Investment Funds

MONTH IN FOCUS

THE HEADLINES

- **Focus on potential for a vaccine…**
- **…regional equities surged higher over the month…**
- **…nominal bond yields rose for the first time in months**

MARKET OVERVIEW

Risk assets continued to surge higher in August, with strong returns from the major regional equity markets. We have seen positive news on a potential COVID-19 vaccine, with many experts predicting one will be available by April 2021. Whilst virus case numbers are still rising around the world, levels currently appear controllable in many countries experiencing their second wave.

Apple became the first company to reach a $2 trillion valuation as technology stocks continued their steep ascent higher. In the US, the Democratic and Republican parties held their respective national conventions, formally nominating Joe Biden and Donald Trump as candidates for the US presidency in the November elections.

US equities were once again among the strongest performers in August, with the S&P 500 index turning positive on a year-to-date basis for the first time since February, spurred on by the continued outperformance of technology stocks. UK and Europe ex-UK equities, although not as strong as the US, produced positive performance.

For the first time since March, nominal yields started to rise as improving job growth numbers and inflation numbers came in above expectations. This led to negative performance for many developed nations' government bonds – such as for the US, Germany and UK – which had a knock-on effect for global investment-grade credit, although slightly narrower credit spreads helped to offset some of this.

FUND PERFORMANCE REVIEW

The Mixed Investment Funds' returns were positive in August as risk assets performed strongly. The funds with higher equity exposure fared better than funds with more bonds, as some bond markets weakened in July with rising nominal yields.

In all funds, we increased our exposure to Korean government bonds. We have recently seen Korean yields rising; the COVID-19 situation in the country has worsened, however, suggesting yields may fall in the future. Korean yields also remain high relative to the country's credit rating.

In all but the lowest-risk fund, we increased our exposure to European equities given we believe the news on vaccines and medical treatment will increase investors' conviction in a return to normality in 2021 which would boost risk assets. For this reason we have moved our short-term view on equities from slightly negative to neutral. We also reduced our exposure to US government bonds given we had recently seen US yields fall fairly rapidly.

RECENT PORTFOLIO CHANGES

↑ **EUROPEAN EQUITIES, EUROPEAN UTILITIES, LISTED INFRASTRUCTURE, KOREAN GOVERNMENT BONDS**

↓ **US GOVERNMENT BONDS**

MARKET OUTLOOK

Our medium-term risk dial remained at neutral in August. Of the factors which drive that view – fundamentals, valuation and systemic risk – there has however been a reassessment.

We remain concerned about the risk of a second wave of COVID-19; however, there is increased optimism that a potential vaccine will be available by mid-2021. The risk of a genuine relapse of the economy during a second wave is now lower thanks to a better understanding of the virus, better treatment and better understanding of the benefits of social distancing. With plenty of room for economies to expand as their recoveries unfold, we have moved our medium-term view on the global economy from neutral to slightly positive.

As a result of the market turmoil at the end of the first quarter, equity valuations plunged to attractive levels compared with bonds. Within the bond market, corporate and emerging-market credits traded at a significant discount to safer and more liquid securities. Since then we have seen markets rebound strongly. We have therefore reduced our medium-term view on valuations from slightly positive to neutral.

In terms of systemic risk not captured by the above, we believe rising debt levels are still a concern, but debt servicing is made easier by extremely low interest rates. Geopolitical risks remain heightened with ongoing tensions between the US and China particularly apparent. For this reason, we remain slightly negative on systemic risk.

Legal & General
INVESTMENT MANAGEMENT