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Portfolio Review

The last month or so will probably have felt like an eternity for many of us as our entire way of life has changed. Whether it's trying to get to grips with home-schooling, working out how to download and meet by Zoom or getting those jobs done around the house that you have always meant to get round to. If we look back, in late February, when the coronavirus was spreading quickly across the world, there was a total lack of clarity on what the impact on the global economy would be. At that point, it was very clear that panic was in the air, with some professional investors behaving like amateurs and dumping risk assets as quickly as possible. The result was a spike in volatility higher than seen even in the last financial crisis – more on that in the portfolios section.

However, if you look at the performance of the stock market over the past few weeks, it would be easy to think that the world is returning to how it was. At the time of writing, the S&P 500 Index has bounced 27% off its lows a month ago and now stands down just 15% from its peak on 19 February. In many respects, that is remarkable given that the global economy is facing its worst crisis since the Great Depression nearly 100 years ago. However, we also have to remember that an equity market is forward-looking in how it behaves.

As I started to mention last month, we may have passed the point of maximum panic in financial markets but have yet to reach the point of maximum pessimism in terms of the economic statistics. All the evidence is pointing towards the deepest global recession since the 1930s. Although we know that a recession approaches, the length and depth are still very uncertain. This partly depends on medical matters – how effective is the containment policy, does antibody testing work, will a second wave of infections appear? It also depends on the efficacy and size of the policy responses from governments; policymakers are trying to protect jobs and cashflows, but will bankruptcies, bond defaults and layoffs be reduced to a manageable number? A final variable is whether new shocks appear to test the economic system – the recent collapse in oil prices is not a help in that regard, placing the US shale industry in a bad place.

Equity prices could re-test previous lows, as is common in a bear market. Efforts to contain the virus may fail. Emerging market economies have far weaker public health systems and far less fiscal flexibility to support workers and businesses. On top of that, the disagreements between Saudi Arabia and Russia are forcing the oil price below $20 per barrel, harming the finances of many exporting nations. Even if developed market policy programmes prove effective, they cannot prevent a sharp rise in bankruptcies and credit defaults.

As the old saying goes, it is darkest just before the dawn. Although Europe and the US face difficult months, Chinese business surveys snapped back at the end of March and the authorities there are beginning to ease policy. It is far from the case that all the easing has been seen on the fiscal front; the US Congress is currently debating a fourth mega-package. We expect public sector deficits in many countries to approach 10% of GDP this year, taking debt/GDP ratios well above 100%. However, strong support from central banks, via general QE programmes or specific yield curve control measures, will ensure debt servicing costs are manageable, for the time being. On the medical front, the WHO indicates the peak of infections may be in sight in Europe, while antibody tests may start to show that parts of the population can return to work.

More good news is that the policy responses were faster and larger than would have been thought possible. As and when the pandemic is brought under control, then the conditions are falling into place for at least a moderate, possibly a rapid, recovery in activity.

On a final macro note, you may have read last month about oil prices turning negative leading to a joke doing the rounds that criminals had been spotted syphoning petrol into cars! This was a technical pricing issue mainly affecting US oil futures (Brent and Dubai crude were unaffected) and was due to the nature of fixed time delivery contracts versus very limited US storage capacity. Oil futures are contracts to deliver the physical commodity of a particular grade to a specific location. With the sharp drop in demand and lack of available storage, there were no buyers for these contracts resulting in the technical pricing below zero. Unfortunately, please do not expect this to be reflected at the pumps!

Portfolios

The turning point in the short term was the 23rd March as sentiment turned positive and investment markets breathed a sigh of relief, as support came from central banks and there was discussion around the prospect of an end to the lockdown. This may just be short term relief from an oversold position, as the true impact shows through in the coming months, but in the meantime, markets lifted in April, giving all portfolios some welcome recovery.

Generally, although the short term volatility has been high and the VIX index measuring volatility is still at around 40, where the average prior to the correction was running at around 20, portfolios have maintained resilience through the downturn, but captured the recent upturn to give investors reassurance and some reprieve.

Portfolios rose between 4.1% for the lower risk growth portfolio to 10.4% gross for the Ethical portfolio over April.

Although rolling portfolio 12-month figures are still negative, in the majority of cases, this is within -6%. When compared to major indices reported in the media, such as the FTSE100, which is currently down -17% over 12 months, even the highest risk growth portfolio has experienced considerably less volatility. This has provided some welcome peace of mind when reviewing financial plans.

In most cases funds recovered in excess of 5% across the board. Amongst the main growth portfolios, greatest gain was in UK Smaller Companies. The Amati UK Smaller Companies fund rebounded just shy of 23% over the month.

The UK investment trust based Unicorn Mastertrust fund rose in excess of 15% and many of the Income funds also made significant recovery.

Whilst the volatility index remains high currently, we are minded to hold off on major portfolio changes for the time being as even a short time out of the market could be detrimental to portfolio recovery.

All returns rounded and quoted gross of ongoing fees and as always, please contact your adviser at Beckford James with any questions or call 01225 437 600.