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June 2020 Portfolio Review

A sense of near normality appears to be returning to the world with lockdowns being progressively lifted. Equity markets reacted positively to the continued uplift in sentiment and the supportive policies of central banks. But this comes with a warning sign attached, as the focus is very much on assessing the sheer scale of the economic heart-attack caused by the COVID-19 virus, and this certainly has not gone away, as reports of spikes started to rise including the localised lockdown on home soil in Leicester towards the end of the month.

The record job losses in the US following the 2008 financial crisis now look relatively tame by comparison to current levels, and never before have governments tried to plug the gap in a bid to ensure no one feels worse off. Never have major economies been deliberately crashed to control a pandemic. Following significant recovery in markets in May, June has seen them on a slightly more cautious footing with momentum-based rises at the start of the month being brought back as fears of a resurgence and political tensions rose towards the end of the month.

Without the imminent discovery of a vaccine, a rebound back to pre-crisis levels seems unrealistic ,especially as businesses are forced to operate below capacity due to ongoing social distancing measures. The impact on further job losses and less spending in the economy means governments will need to continue to intervene or the economy is likely to continue shrinking. For the time being, it looks as though governments will be forced to continue borrowing and to continue spending. Consensus suggests this will drive inflation.

As so many of us have become used to the new norm, working from home (WFH), forging remote business relationships with a screen wave rather than a handshake, some real estate investors believe the success of the WFH 'experiment' may lead to a long-term decline in office space demand. Statistics from the US, echoed globally, suggest that 40 to 50% of people are now working mainly from home. As use of video conferencing services has grown exponentially, in May the market capitalisation of Zoom, born in 2012, surpassed that of the world's seven largest airlines combined. The counter argument to the need for less office space is that companies will actually need more space per employee to comply with distancing requirements.

On forward projections, a survey of Fidelity's global analysts reflected growing optimism over the path to economic recovery with an estimate of the end to business disruption coming within 10 months. Some analysts are already reporting Chinese industrial companies returning to pre-covid levels or even slightly above.

Interestingly, and particularly topical currently, although the virus has placed an urgent focus on corporate survival, environmental, social and governance factors are taking precedence over profit maximisation. Only 15% of analysts questioned reported their companies would not be willing to sacrifice some earnings to pursue a more sustainable agenda. The growing global focus on sustainability coupled with societal events that rocked the world at the end of May have increased the pressure on society and corporates to respond accordingly. Facebook, for example, has suffered major backlash as companies have withdrawn advertising from the platform in response to its failure to act against hate speech.

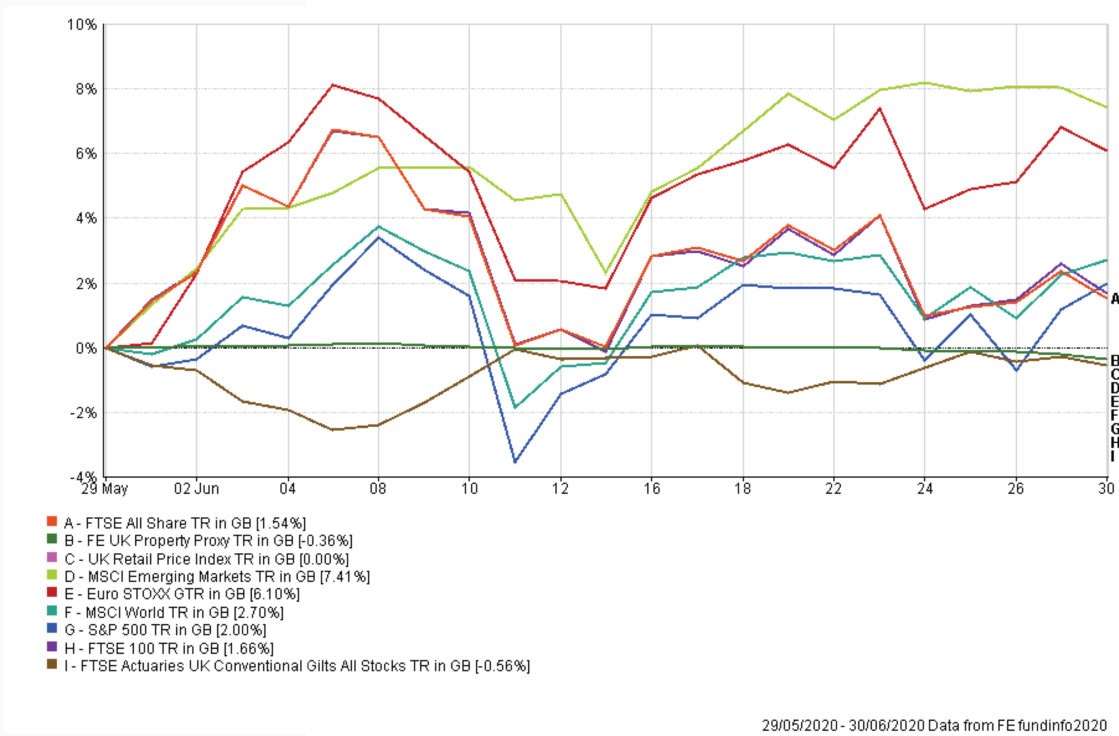
The prospect of a prolonged global recession remains the greatest threat on the near horizon with further corporate fall out and the ensuing impact on employment levels. However, to turn against equities at this stage, would be a potentially risky decision as some markets, such as the Nasdaq continue to perform well, the latter hitting an historic peak on 25th June. It's all to easy to think just about the potential systemic impact on investments without being mindful that some companies will still continue to perform well.

Portfolios

The momentum carried through to sound performance across all portfolios in June, which will give investors reassurance over a cautious month, given the political and social unrest. The lead return came from the ethical portfolio, a rise of 2.26% gross, as the surge in the Environmental, Social and Governance (ESG) theme continues to drive certain stocks. Year to date, this portfolio has almost returned to level performance having over-ridden most of the COVID-19 correction.

The lowest risk portfolio 'Growth Version 14 Risk Profile 3' (V14 R3) rose 0.78% and twelve-months figures show this portfolio to have also made positive gross returns like the ethical portfolio.

There was significant recovery in both the European and Emerging equity markets, as highlighted below.



[source: FE Analytics]

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This certainly helped to drive performance through the risk profiles with Growth portfolio V14 R10 retuning 1.84% over the month.

Although only small weightings in portfolios, the lead returns in June came from the emerging market holdings with Alquity Indian Subcontinent returning 10.15% and Baillie Gifford Emerging Markets 9.76%. Of the larger weightings in the higher risk portfolios, the HSBC European Index rose 4.46%.

Against a general picture of good performance, it is reassuring to see outperformance added by the active managers in portfolios. Compared to the trackers we pay a premium for active manager services in the region of 60 to 70 basis points (bps), so it is important that their decisions add significant value over time, on a consistent basis. Of the top ten performing holdings in June, seven were managed actively.

Again, a positive contributor to performance over the month was the Loomis Sayles US fund, delivering a gross return of 3.93% against the benchmark (S&P500) return of 2% and the North American fund sector of 1.6%. The high conviction nature of this fund, based on rigorous due diligence into the stocks bought and held (and those rejected) is what makes it a complement to the tracker funds within the portfolio. Investors often perceive that high performing funds must be actively trading stocks daily looking to 'buy low and sell high,' so it is of particular note that this, and several other funds in the portfolios have average stock holding timeframes exceeding 3 to 4 years. This patient approach is echoed in the portfolios with the purpose of maintaining consistency and stability.

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.