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August 2020 Portfolio Review

So that was summer 2020 and August saw the UK equity markets match the traditional UK summer weather: soggy. However, there were positive signs with a combination of pent-up demand, stamp duty holidays and Covid-19 lifestyle changes, resulting in the highest level of house sales in a decade between July 12th- August 8th of £37bn according to Rightmove. Inflation was higher than expected in July up from 0.6% to 1%, although perhaps not a surprise given lockdown and social distancing impact on the production of some goods. Furthermore, the economy continues to enjoy a substantial amount of support from the furlough scheme and the very well-received 'eat out to help out' scheme, with real-time data indicating managed restaurant sales were up 8% year-on-year. Overall, retail sales growth in July was +1.4% compared to the same month last year as some of the forced saving during lockdown in Q2 is being spent as retail outlets reopen.

But the sustainability of our economic recovery depends on getting people back to work. There are no real signs that this is imminent, but the upcoming return to school is a key part of that. Unfortunately, it is almost certain that increased opening measures – especially the reopening of schools – will cause at least some boost in virus cases. But whether this affects economic or market expectations we will have to wait and see and will monitor over the coming months.

The latest round of Brexit negotiations appears to have stalled again, this time over access for British truck drivers to the EU, although talks are believed to still be stuck on multiple fronts, including fisheries and level playing field agreements. The UK submission of a draft free-trade agreement was interpreted by the EU as a "desperate move".

In Europe, most of the attention has shifted to fears of a second wave as cases continue to build across the region with the infection rate seeing spikes of more than 70% in some countries. Despite this data, Angela Merkel warned Europe against new lockdowns and highlighted the importance of acting in coordination to avoid repeating the heavy-handed measures adopted during the initial peak, which would deliver another blow to Europe's fragile economies.

August also saw the resignation of Japanese Premier Abe for health reasons. Given Abe's supportive economic measures over the years, markets' immediate reaction was negative – with Japanese stocks falling 1.6% and the Yen falling somewhat (though shortly bouncing back). As effective as Abe's economic policies may have been, there is little reason to think that his departure is a major blow. The government's policy is unlikely to change drastically in the short-term, and the opportunity for new blood is often a good thing.

And so, to the US. Here we saw Donald Trump kick off his re-election campaign in earnest, and global investors showed it is indeed "America first". US equities continued to push at all-time highs, having recovered all that was lost in March's frantic sell-off – and then some. If the stock market soaring to new heights while the world languishes in its deepest ever recession isn't staggering enough, we also note the US is accelerating away from its global peers.

In particular, investors are bullish about America's big tech superstars, with the mega-cap tech sector emerging as an undisputed pandemic winner. And that market optimism continues to be backed up by an abundance of liquidity. The main market event was a speech from US Federal Reserve (Fed) Chair Jerome Powell, in which he expectedly announced a break from past Fed policy. From here on, it will allow inflation to rise above the 2% target for short periods of time, in the same way that inflation has often undershot that target. The announcement changes nothing right now, with the Fed holding interest rates at near-zero and pumping huge amounts of capital into the financial system. But it confirms what investors have suspected for some time: easy monetary policy is here to stay, even when the economy starts whirring again.

This market optimism could also benefit Donald Trump. At the Republican National Convention this week, Trump and Vice President Pence firmly nailed their colours to the 'Law and Order' mast – painting a Biden presidency as route to violence, anarchy and moral decay. But for all of that strongman rhetoric, the President will be well aware that economic optimism, backed up by an accommodative Fed, is crucial to his re-election hopes.

US electioneering is also flaunting the introduction of a vaccine for Covid-19 as a major political goal for the Trump administration. After mounting criticism of his handling of the crisis, Trump is similarly believed to be looking to bypass normal US regulatory standards requiring a widespread phase 3 trial, by bringing in an "emergency use authorisation" (EUA). This would allow a vaccine known as ChAdOx1 nCoV-19, that is being developed in a partnership between AstraZeneca and Oxford university, to be introduced in October – ahead of the elections. With US public confidence in the safety of vaccines low, this appears a bold move.

However, much of this has bolstered Trump's electoral hopes. Back in June, the President's campaign looked in tatters, with Biden barely having to say a word to gain his big lead in the polls. But that lead has since come down, and betting markets now put the election at near enough a 50-50 split. This change has undoubtedly also had a positive effect on capital markets. For all of his bluster, Donald Trump's agenda of tax cuts and deregulation has been a positive for corporates, so it is little surprise that they should do well out of his increased chances. With little over three months to go until Americans head to the polls, the campaign will hot up even more.

Relations between the US and China remain tense as politicians remain at loggerheads over the next coronavirus relief bill. China also ramped up tensions with Australia by launching a probe into wine imports from that country. Relations have deteriorated between China and Australia since the latter called for an independent enquiry into the outbreak of the Covid-19 pandemic.

So whilst the S&P 500 has gained an incredible 56% from its March lows, the UK's FTSE 100 has barely moved in the last few months – seemingly locked around the 6000 level. European and most other markets look similar, with US and global investors all giving the world's largest economy an overwhelming vote of confidence.

Portfolios

Some of you may have seen articles referring to suspension of some H2O funds by the French regulator. The Multi-returns fund which we hold in the models is not affected but we will continue to monitor the situation.

Elsewhere, the surging NASDAQ (driven by FAANG stocks) pushed US equities higher still and was reflected by growth in the more speculative portfolios. Year to date Apple's share price has grown from $300 to $500, Facebook from $209 to $298 and Tesla from $430 to $2,238 to name just a few, and the NASDAQ returned just over 9% for the month taking year to date returns to c38%.

So much for the impact of the pandemic, and although financial press is starting to refer to the global recovery, commentary is also building around the concerns for sustainability of these prices and the concentration of just six stocks now accounting for over 25% of the S&P500 index. This highlights the value and importance of potential 'sense-checks' and hence justifies the inclusion of active funds. These look qualitatively at basic fundamentals of good stocks and apportion fund resources appropriately to maintain a risk appropriate balance. According to research by LGIM, investors in the MSCI World Index weighted benchmark now have more exposure to just Amazon stock than they do to the smallest 25 countries in the index.

Our portfolios have captured the growth areas over the month and through diversification have given positive returns against the leading UK equity index (FTSE100) which fell -1%. With a slightly higher concentration in holdings, the ethical portfolio led returns rising c2.4%. The more speculative growth portfolios between 7 to 10/10 risk rising between +1.19% and just over 2%. As investment moved back away from the safe havens of gold and government debt, the more cautious portfolios remained relatively flat with the lowest risk portfolio (3/10) returning -0.18% to +0.72% for risk 6/10.

The leading mainstream fund driving performance over the month were the Loomis Sayles US Equity leaders capturing the majority of the rise in the NASDAQ at +8.12% and exceeding the return of the Vanguard US Index tracker by 3.23%.

Also, worth noting was the return generated by the AMATI UK Smaller companies fund at +6.38%.

As ever, please contact your adviser or the client service team with any questions regarding your portfolio.

All figures quoted gross of advice or platform fees.