October 2020 Portfolio Review

The words 'holding pattern' echo around current investment commentary as markets await the outcome of the US election, the impact of the second wave of infections and developments in Brexit negotiations.

Markets have little good news to go on. The surge in infection rates has led to a return to lockdown in the UK and across Europe, reducing the appetite for risk assets in the second half of October. Throughout the month the increase in tier 3 lockdowns across the UK offset any positive news around the potential for first vaccine releases to come pre-Christmas. By the end of the month the FTSE100 and the Euro STOXX were 5% and 7% lower, respectively. At the time of writing (November 2nd) thankfully, the FTSE did not take further 'fright' at the weekend's announcements, most likely due to the leaking of news in advance.

As the Furlough scheme ended on 31st October, replaced by the jobs support scheme, there is further pressure on employment. Brexit negotiations appeared to hit another stand-off as Boris Johnson warned the Nation to prepare for a no-deal Brexit. This was, however, seen more as political posturing and did not particularly unnerve markets.

The European Central Bank and the Bank of England hinted at further stimulus which seems unavoidable against the current backdrop and surely this also points to a 'deal' being in the best interests for either side? Indeed, Michel Barnier said that a trade deal with Britain 'was within reach' if both sides work hard to overcome the sticking points.

On the eve of the US elections, markets are in a state of flux awaiting outcomes. Commentators suggest that victory either way is unlikely to have a material impact on markets, but that a contested result would be far more detrimental. With Democrats favouring more spending than Republicans, a win for their candidate for president, Joe Biden, combined with a 'Blue wave' sweep where Democrats won majorities in both the House of Representatives and the Senate, is perceived as the outcome that would deliver the largest fiscal boost and therefore the most help for risky assets (equities).

Turning to the implications on planning, and portfolios, understandably investors nerves may be elevated in the short term, however, with China's economy booming, the potential for vaccine release before the end of the year allowing for the easing of restrictions and the potential stimulus packages in the offing, there are sufficient positives leading to the end of the year and into 2021.

In a period of uncertainty investor emotions are likely to run a little higher than usual and our inbuilt cognitive biases are likely to be more stimulated to drive us to take some sort of action. This is where taking a moment to pause and consider longer term targets will help to avoid detrimental choices.

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Property
Commercial property like many assets have been adversely affected by the Coronavirus pandemic. Due to the unprecedented restrictions earlier this year, fund managers took the decision to suspend property funds, a clause referred to as '**material valuation uncertainty**'. This clause has been applied on various occasions in recent years to help support the underlying value of the property portfolio. This suspension has lasted far longer than previous suspensions which has called into question the suitability of the asset class in portfolios for various reasons including the difficulty it creates in the management of portfolios when such funds are suspended.

This clause has always been used as a mechanism to protect portfolios and those intending to remain invested, to restrict the need for managers to sell relatively illiquid assets at a distressed price. This makes sense as the process of sale of a commercial building is far more involved than the sale of a main market listed UK company share, for example.

As it stands, we could take the opportunity to sell all property holdings as the suspensions have been lifted on the Threadneedle and Legal & General funds. At the time of writing the suspension remains on the AEGON fund within the income portfolio.

As a diversified asset class within a balanced portfolio, commercial property retains a valid proposition. As with all asset classes, considering the economic and behavioural changes over 2020, certain sectors within the property sector are performing well, others are suffering. Logistics, data centres, warehousing and supermarkets, to name a few, have presented either stability or opportunity whilst high street retail has suffered. To make a rash decision to throw such investments out of portfolios would be to throw out an asset class that still offers reasonable medium to longer term potential, and a diversified source of returns. However, we are maintaining a close eye on the regulator's review of dealing terms on property funds and how any developments will interact with model portfolio management.

Other, more liquid, versions of property funds are available in the form of Real Estate Investment Trusts (REITS) and we did consider these as a replacement to avoid the risk of future fund suspensions. However, the trading price of REITs is largely dictated by supply and demand and valuations more closely reflect the movements of equities than a traditional 'bricks and mortar' fund. In conclusion, for the time being we remain comfortable retaining the commercial property exposure in the growth portfolios through Threadneedle and Legal & General, but the position remains under regular review.

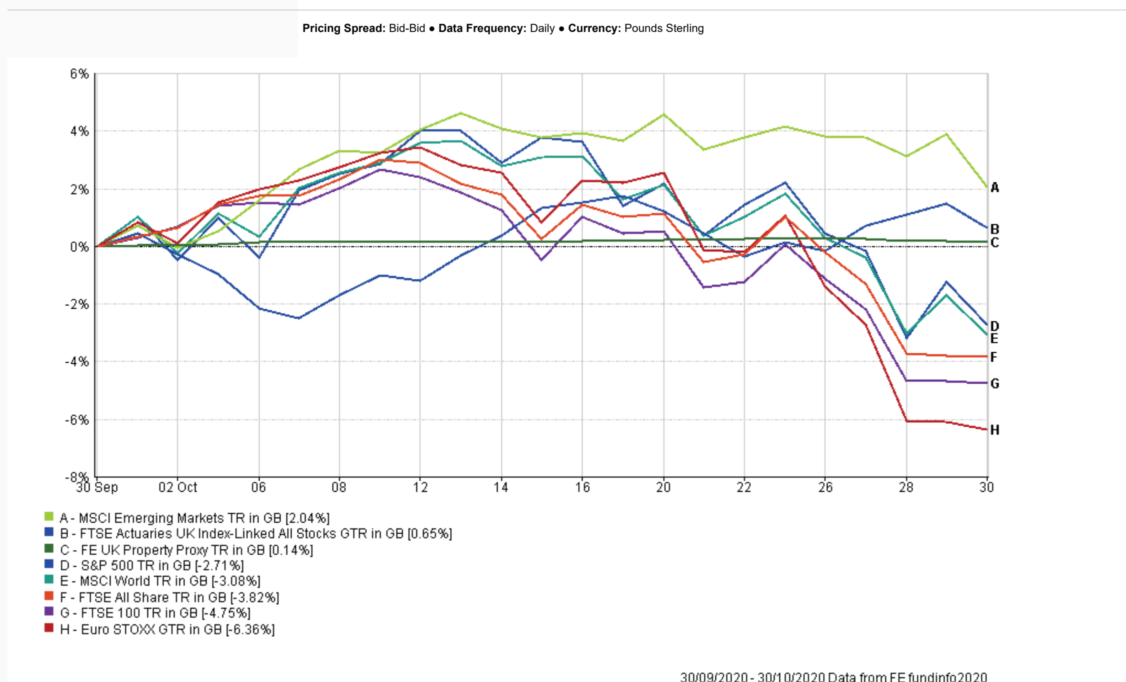
In the last few days, we have released the update to Growth Portfolios (version V15). Please reply to the email to confirm the update, or should you have any questions, please direct these via your adviser or contact the office on 01225 437 600 or by email at info@beckfordjames.com.

Portfolios

Again, diversification was key in damping volatility in a difficult month and although all portfolios suffered a drop in October, the highest risk portfolio (R10) kept the decline to within -2.2%. The lowest risk portfolio was relatively steady at -0.6% with all other portfolios falling between those.

With the major equity indices across the UK, Europe and the US falling between -3.8% and -6.4% (see below), portfolios were, therefore, relatively steady.

2 November 2020



30/09/2020 - 30/10/2020 Data from FE fundinfo2020

'Past performance is not a guide to future returns'

Within the lower risk portfolios, the fixed income and credit exposure through the GAM's Credit Opportunities fund (+1.09%) and the Vanguard UK Inflation linked Gilt Index Fund (+0.69%) contributed positively. Although still recovering from poor performance at the start of the year, the Natixis H2O Multi-Returns fund also contributed very strongly (+2.9%).

Detractors to performance included, understandably, the index tracking funds with the HSBC European Index fund falling -6.5% and the L&G UK 100 Index fund falling -5%. Slightly uncharacteristically, the Lindsell Train UK Equity fund hampered portfolio throughout October (-7%). As a concentrated, high conviction portfolio, each underlying stock has a relatively significant influence on performance. As stocks such as Hargreaves Lansdown and Burberry suffered setbacks of -c13% in October, this had a marked effect on the fund. Although the fund underperformed its sector by -4.5% for the month, this approach has led to outperformance against the sector of +34% over 5 years. We are not unduly concerned in the short term.