Beckford · James

chartered financial planners

November 2020 Portfolio Review

Markets appear to have entered calmer waters recently, with equity markets especially buoyant since the US presidential election and positive news on a COVID-19 vaccine. Looking at the UK for example, whilst the UK blue-chip index closed 1.6% lower at 6,266 at the end of a stellar November, it leaves the index 12.4% higher over the month, falling short of the 14.4% record set in January 1989.

Similarly, if we look at the Chicago Board Options Exchange Volatility Index (VIX) or as it is sometimes known, simply the 'Fear Index', recent good news has seen this measure of market 'fear' collapse, with the VIX dipping below 20 for the first time since February. All better news for nervous investors.

The emerging consensus is seeming to suggest that 2021 will be a strong year for equities as the global economy recovers from the pandemic. A key Trump administration appointee said she would allow President-elect Joe Biden to begin his official transition, paving the way for his team to get access to briefings and other government services needed for the transfer of power. It marked a formal recognition by President Trump's administration that Biden won the 3rd November election.

The combination of Astra Zeneca's vaccine announcement and a clearer path to Joe Biden's presidential transition has bolstered global equity markets. Hopes of a strong recovery in the US economy and the end of political uncertainty saw the US market hit a fresh record high in the run up to Thanksgiving and Black Friday. Until vaccination programmes gain traction, Covid-19 risk remains and US disease expert Dr Antony Fauci warned that America could see a 'surge upon a surge' of Covid-19 cases as people return home from the Thanksgiving holiday.

The US flash PMI activity reading for November was the highest reading since 2015 and probably caught the post presidential election jump. All of this reflects a growing economic optimism further tickled by the possibility that Joe Biden's presidency will see Janet Yellen return as Treasury Secretary. This could suggest that the US economy may 'run hot' - good for growth but also raising the question of whether we will see a pick-up in inflation.

While markets welcomed the vaccine news, many countries are still seeing Covid-19 cases rise. Germany has announced an extension of 'lockdown light' and activity indicators for Europe appear to be signalling a double dip recession in the fourth quarter which, is not surprising given the recent rise in Covid-19 cases and resulting lockdown measures. However, some lockdown measures are starting to ease with France allowing non-essential shops to open. The EU also has other problems with the budget and recovery fund stand-off with Hungary and Poland continuing.

And while the UK lockdown ends tomorrow, there is a lockdown 'lottery' with the majority of England facing either tier 2 or tier 3 restrictions. The latest survey estimates that the R rate of infection is 0.88 – below 1.0 for the first time since August so this appears harsh. Lockdown 2 hit business sentiment, especially in the service sector, although the outlook was a little more positive helped by the vaccine news, the hospitality and services sector continue to be hit particularly hard by the government's tier 2 and tier 3 restrictions. Chancellor Rishi Sunak presented his 2020 spending review which contained no real surprises. The Office of Budget Responsibility (OBR) presented three forecast scenarios with the central one suggesting a 11.3% contraction in the UK economy; smaller than in the previous forecast but that the subsequent recovery takes longer. The cost of propping up the UK economy during the Covid-19 crisis suggests government borrowing will rise to £394bn – 19% of gross domestic product (GDP) with the debt/GDP ratio at 105% - the highest level since 1959/60! And there is also a 'no deal' Brexit scenario that would knock a further 2% off UK economic growth.

But even Brexit talks have been interrupted by Covid-19, though final talks have resumed and appear to be going down to the wire with fishing still an ongoing sticking point. Face-to-face meetings continue and comments over the weekend suggest that a deal is getting closer. On the level playing field, UK Foreign Secretary Dominic Raab said that he could see 'a landing zone', words similar to those used by the EU a few weeks ago. This implies that the main issue is now fisheries, which remains a sticking point despite the small contribution that the industry provides to GDP. The UK Government is concerned that giving too much ground on fisheries will mean that the UK has not 'taken back control' of its borders. While the next UK election is a long way away, there is undoubtedly a political angle to the optics of any deal.

Nonetheless, markets remain hopeful of a lastminute deal with reports that the possibility of adding sunset or review clauses into any agreement helping to unlock compromise on some of the more difficult issues, allowing them to be revisited in a number of years. Sterling edged up above $1.33.

Portfolios - November 2020

In a dramatic turnabout for investments during a challenging year, as stated the news of the release of vaccines, the US election result and the potential for improvements in Brexit negotiations allowed the equity markets freedom to breathe and recover from part of the March decline. Buoyed by improved sentiment, the UK All Share and FTSE100 rose over 10% in the first half of the month and maintained the position throughout November both finishing over 12.5% higher.

European equities also saw a bounce and maintained an upward trajectory, with the EuroStoxx finishing the month just over 16% higher. And what would usually be viewed as good performance across other indices appeared almost muted. The S&P500 rose 7% and emerging markets continued their rally rising c6%.

Areas that had previously been most significantly supressed, such as UK higher yielding equities showed signs of the greatest recovery and this proved good news for the income portfolio especially, recording a rise of just over 11% for the month. The balanced income and Growth portfolio rose just over 9% and the growth portfolios followed in order of risk profile with R10 increasing just over 9% and R3 just over 3%.

Key drivers in portfolio performance came from the UK Equity Income Sector with a rise of almost 19% in the Man GLG Income fund, closely followed by Majedie UK Income (c16%) and Rathbone (c15%). Within growth portfolios, the HSBC European Index fund increased just under 15% and the HSBC and Legal & General UK Tracker funds rose just over 14%.

All in all, a good month for portfolio recovery with year to date performance for all growth and ethical portfolios being positive. The Balanced Income and Growth portfolio is now on par with its start of year position. The Income portfolio has recovered to approximately -8% year to date, which compared to the FTSE100 (which remains -c13% lower), this is somewhat reassuring.

In a month of positivity for portfolio only the Threadneedle UK Property fund posted a minor negative return (-0.08%). However, with news still accruing around business failures and economic impact due in the aftermath of lockdowns and rising unemployment, the rise in markets is highly sentiment driven as opposed to fundamentals driven. We therefore note a word of caution.

If you have any questions regarding portfolios, the underlying funds and the ongoing monitoring, please ask your Beckford James adviser or contact us at info@beckfordjames.com