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December 2020 Portfolio Review

So goodbye 2020. A sentiment shared by many but the initial enthusiasm to see the end of the year and welcome in 2021 may well give way to, if not pessimism, then a pragmatic dampening of spirits in the short term. Most markets have opened positively for the start of the year but some of the issues remain the same and it seems, as the saying goes, the more that things change, the more they stay the same.

On a positive note, the Christmas Eve trade agreement between the UK and the EU has been welcomed for avoiding a no deal scenario which would have led to much more uncertainty for businesses on both sides of the channel. The trade agreement will likely be added to in the months ahead to incorporate equivalence for the Financial Services sector, one of the UK's flagship industries. Achieving equivalence will take months and it is not guaranteed, with both Paris and Frankfurt looking for a slice of the action. However, it is an important agreement for the UK, given the high number of people employed in Financial Services, not to mention that it is a very significant source of revenue for the UK Exchequer. The positive opening day reflects the sense of relief that there is no sign of visible disruption from the new trading arrangements with the EU. However, it will be a while before we know the real impact of the new trading rules. Many manufacturers rushed to fill and ship orders in December ahead of the changes so it will be some weeks before business gets back to normal and we see if any cracks start to appear. Further, it is important to note that while tariff free trade has been agreed in many areas, it is not without a cost in terms of paperwork and administration. So, whilst a Brexit Trade and Cooperation deal may be 'done', there are many other areas where negotiations and protocols will continue.

Overseas, attention turns to the US where many global equity market indexes are hitting new highs boosted by the US stimulus progression and the positive vaccine news. The House of Representatives passed a bill approving the increase from $600 per individual to payments of $2,000 in line with President Trump's request, however, the Senate may yet turn this change down, making the early weeks of January quite eventful for US politics. Markets believe that President-Elect Joe Biden's four years in the White House are already confirmed but two events could keep things interesting and investors on edge. The first is the Senate run-off in Georgia. If the Democrats gain both seats in Georgia, then the Senate will be split 50-50, giving Vice President-Elect Kamala Harris the casting vote and the Democrats an edge. The second; Congress meets to certify the November ballot result and December's subsequent vote by the Electoral College. In theory Mike Pence the vice president could exclude those states where President Trump is arguing that the ballots were rigged and has reportedly welcomed the efforts of a number of congressional Republicans that are planning to challenge the election results. We will know more in the coming days.

Economically, the prospect of more US Government spending may already be weighing on the dollar, as the US deficit continues to balloon, and the US Federal Reserve begins to expand its balance sheet once more. It may also be raising the spectre of inflation. Five-year forward inflation expectations in the USA stand above 2% for the first time in nearly two years, as investors ponder the possible combination of a successful vaccination programme, ongoing fiscal and monetary stimulus and a post-virus economic upturn.

These considerations are however, helping US equities power ahead, especially since investors will look back to the precedent set by previous Democrat administrations. In the eight Democratic Presidential terms since 1945, the average gain in the first year has been 13.1% and the only decline came during the 12 months after Jimmy Carter's inauguration.

But as we ended last year, so we begin this, and not just with a Covid hangover, but with the spectre of uncertainty continuing to hover. The possibility of lockdown is growing with many counties already imposing tough movement rules to try to stem the spread. Also adding to the uncertainty is the report of two, more infectious, strains emanating from Britain and South Africa in turn. The potential for more school closures and national lockdowns means that not only is the economy inevitably heading for the second dip of recession, but also that full economic recovery is further off.

But there is optimism and hope that the rollout of the Oxford/AstraZeneca vaccine will bring forward the end of restrictions. Vaccine producers are confident their existing vaccines will provide similar levels of immunity against the new strain of COVID-19, although no official test results have confirmed this. The UK approved the use of the AstraZeneca and Oxford University vaccine after it passed the necessary regulatory hurdles. The UK has ordered 100 million doses of the vaccine, which is easier to store than the already approved Pfizer/BioNTech version. Many EU countries also began their roll-out of the Pfizer/BioNTech vaccine.

With figures from the Bank of England suggesting households are on average, sitting on more savings, the recovery when it comes, should be emphatic - but only once restrictions are lifted.

Portfolios

All portfolios enjoyed a positive December with Ethical and Income portfolios leading the way. UK funds fared well, as expected on the back of the announced trade deal, with the top 5 performers all posting returns of 6% plus for the month and all being UK based investment strategies. Top amongst these was Amati UK Smaller Companies reflecting the slightly better performance of small and mid caps against large caps as evidenced by the better returns on the FTSE All Share index as against the FTSE 100.

All portfolios are also up over the 1-year period with the exception of the Income portfolio which has returned from a large drop in March to only about 5% down on its value last year. As a mainly UK based equity portfolio, this reflects well given that the main UK indices mentioned remain 9.82% and 11.55% below their starting point of 12 months ago respectively and shows the benefit of diversification in all portfolios.

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

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