UK: For retail clients
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Quilter Investors

Generation portfolios April 2020

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As equity and credit markets recovered the Generation portfolios recorded positive returns

Given the ongoing market uncertainties we have maintained a cautious equity positioning

A key future focus will be on winners and losers from the lifestyle changes imposed by the coronavirus

Market review

April marked the first full month of lockdown for the UK, while elsewhere in the world, some countries began lifting the restrictions on the movement of people as the number of coronavirus deaths continued to fall.

In the UK, Prime Minister Boris Johnson fell seriously ill with coronavirus, while the UK Labour Party elected Keir Starmer as its new leader, succeeding Jeremy Corbyn. The FTSE All Share index nudged up during the month, returning 4.9%.

The UK government announced it intends to issue £180bn of government debt between May and July this year, a higher volume of issuance than previously confirmed by the UK Debt Management Office. The ICE BofA 1-10 Year UK Gilt index was up just 0.5% by the end of April.

Global stock markets bounced back in April helped by the news that human trials for a coronavirus vaccine were underway, although a working vaccine is still a long way off and social distancing looks set to remain in place in some form throughout 2020, medical officials warned.

European countries began to lift the strict lockdown measures in April, notably Germany and Norway. France and Spain indicated that their lockdowns would remain in place for a while longer, even as the rates of infection began to slow in both countries.

Preliminary estimates from Eurostat showed that GDP shrank 3.8% in the euro area in the first quarter of 2020 and decreased by 3.5% in the EU. The MSCI Europe ex UK index nevertheless posted a return of 4.4% during the month.

Across the Atlantic, the number of unemployed in the US mounted, as jobless claims topped 30 million. President Donald Trump hinted that some US states could reopen and suggested that the coronavirus was past its peak, as he faced growing protests over the lockdown restrictions.

The US Federal Reserve left monetary policy unchanged in April but expanded its bond buying programme to include some riskier bond assets, which was enough to buoy the MSCI USA index, returning 11.2% over the period. Meanwhile, following Bernie Sanders' decision to step aside, former US vice-president Joe Biden was confirmed as the Democratic nominee for the US Presidential election.

For the first time in history, US oil prices fell below $0 during the month due to concerns over a shortage of storage as demand for the commodity plunged during the coronavirus crisis.

The price per barrel of West Texas Intermediate oil was as low as -$40 at one stage, while the price of Brent crude fell below $25 a barrel.

US Treasury yields fell on the back of the tumbling price of oil, having risen earlier in the month. The ICE BofA US High Yield index ended the month up 2% per cent, compared to the ICE BofA US Treasury index, where total returns were down 1.3%.

The collapse in the oil price saw emerging markets clock up another month of outflows as investors continued to flee. But emerging market equities recovered during the period, with the MSCI Emerging Markets index up 7.3%.

By the end of April, the MSCI China index had returned 4.5% as the months-long lockdown was lifted across the country, including in Wuhan, where the coronavirus outbreak started. Although officials in Wuhan raised the death toll by 50% in April as the country released revised figures that suggested the death toll was higher than previously reported.

(*All performance figures in sterling terms and rounded to one decimal point, unless otherwise stated.*)

Performance review

Following a painful March, equity and credit markets both recovered in April, helping all Generation portfolios to deliver positive returns for the month. The higher risk portfolios, which have a higher equity content, further outperformed.

Given the nature of the sharp rally we witnessed in April and the ongoing uncertainties in markets, we have maintained the portfolios' cautious equity positioning, with our hedges – investment positions aiming to reduce the risk of adverse price movements - still largely intact.

While this underweight positioning in equities provides downside protection should we experience further market falls, it has proved to be an opportunity cost during April. That said, during the month we added some further exposure to US equities to allow us to increase our participation if the market rally continues further.

In terms of activity, during the month we redeemed the holdings in the Blackrock Natural Resources Growth and Income Fund due to the uncertain outlook for construction and miners due to social distancing measures, which are likely to ease only slowly.

Elsewhere, government bond yields were unchanged in the US and lower in the UK, ensuring that fixed income investments rallied along with equities. Towards the end of the month we switched out of the Merian Local Currency Emerging Market Debt Fund in order to add to the position in the Ashmore Emerging Markets Short Duration Debt Fund. This switch increases the portfolios' exposure to the potential for upside from Ashmore's emerging market restructuring expertise, whilst at the same time reducing exposure to emerging market currencies, which have been under pressure during the recent market falls.

Overall the Generation portfolios remain overweight cash, which will enable us to take advantage of undervalued investments once we have some more comfort around the potential path back towards normality.

Outlook

We remain cautious on the global outlook – in particular a great deal of uncertainty remains as to the timing and nature of the global economy's emergence from the global coronavirus shock. Typically equity market lows are re-tested after sharp declines, with 'peak pessimism' and accompanying market lows often occurring two to five months after the 'peak' panic of the initial sharp market declines.

For now, the swift and strong equity market recovery in April, coupled with the lower outlook for company earnings, has left equities looking expensive on many measures. Whilst we think that the unprecedented central bank action to date has most likely provided confidence that markets are unlikely to hit new lows, we would not rule out a period of consolidation pending new coronavirus related updates. This could include the development of better testing capacity, the path towards scalable vaccination and the easing of social distancing.

The key focus therefore is on the likely winners and losers as a result of the lifestyle changes we will surely have to make moving forwards, looking at both regions and sectors, and how best to take advantage of those opportunities in the portfolios.

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(b) A trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 305 of the SFA except:

(1) to an institutional investor or to a relevant person as defined in Section 305(5) of the SFA, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 305A(3)(i)(B) of the SFA (in the case of that trust);

(2) Where no consideration is or will be given for the transfer;

(3) Where the transfer is by operation of law;

(4) As specified in Section 305A(5) of the SFA; or

(5) As specified in Regulation 36 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

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