Caerus Select monthly November 2020

Market review

Global equity markets rallied in November, lifted by Joe Biden’s victory in the US presidential election and positive news from three major coronavirus vaccine trials. This raised hopes that a vaccine could be rolled out sooner than expected, hastening the return to “normal”.

In the UK, stock markets had their best month in decades, with the FTSE All-Share Index gaining 12.7% despite the country entering its second lockdown. Pfizer and BioNTech announced that their vaccine was around 95% effective in preventing coronavirus after trials. This helped markets brush off more gloomy news, as Chancellor Rishi Sunak warned in his spending review that the “economic emergency has only just begun”, while the Office for Budget Responsibility forecast that the UK economy would shrink by 11.3% this year.

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The MSCI Europe ex UK Index gained 13.4% in November, making it the top performer among the main market indices. This was primarily due to its higher weighting to cyclical sectors, which benefited from the positive vaccine news. Even so, a surge in coronavirus cases led to a fresh round of lockdowns across Europe, resulting in falling economic activity that hit the services sector hardest.

In the US, the election outcome proved favourable for investors, with Biden becoming president-elect and the Republicans appearing to likely maintain their majority in the Senate. The election outcome, coupled with vaccine developments, helped the MSCI USA Index to advance further, finishing the month up 8%.

Chinese stock markets trailed other major markets but were still positive in local currency terms. China has performed well over the past six months but its equity market received less of a boost from the updates on potential vaccines. For sterling investors, the MSCI China Index fell by 0.5% because the stronger pound decreased returns on overseas shares.

However, China was the first country to begin its recovery from the pandemic and its economy continues to strengthen, with manufacturing activity reaching levels last seen in 2017.

Turning to global bond markets, high-yield corporate bonds performed better than safe-haven government bonds. US Treasury yields were volatile in November, buffeted by election and vaccine headlines, but finished the month marginally lower.

The Bank of England announced an additional £150bn of bond purchases during the month, which was more than expected although at a slower pace.

The price of oil was also boosted by the coronavirus vaccine news, rising above $45 a barrel at one point on the prospect of higher demand for energy when the global economy begins to recover. Oil prices fell back slightly at the end of the month ahead of a delayed OPEC meeting.

The gold price fell as investors moved into riskier assets. Meanwhile, the US dollar weakened over the month, while other currencies gained ground on renewed optimism for global growth. Sterling strengthened against the US dollar and Japanese yen, while the euro was also stronger over the month.

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

November was a strong month for the portfolios with the higher-risk portfolios outperforming the lower-risk ones.

The fixed-income element of the portfolio was a positive contributor to overall performance as it outperformed the index. The risk-on environment during the month saw corporates outperform gilts, therefore not unsurprisingly it was the Allianz Gilt Yield Fund and M&G Index Linked Bond Fund that were the laggards.

However, positive absolute performance from all of our other fixed-income holdings more than offset those losses, with the Jupiter Strategic Bond, Fidelity Money Builder Income and PIMCO Global Bond funds among the standout performers.

The alternatives element also made a positive contribution to headline performance. Two of the three property funds returned a positive contribution until they were exited mid-way through the month, with the Threadneedle UK Property Fund the underperformer.

Following the complete disposal of the property holdings we added the PIMCO Dynamic, Janus Henderson Absolute Return and Merian GEAR funds to the portfolios, which since their introduction have all produced a positive performance, as diversifiers to other holdings in the portfolios.

Our UK equity holdings were behind the index for the month overall, despite November being a stronger month for a region that has been a perennial underperformer throughout 2020. Positive news regarding vaccines and the fact the UK would be the first to administer injections in early December prompted the recovery.

However, the Trojan Income, Evenlode Income and Liontrust Special Situations funds failed to keep pace with the market, despite all posting positive returns. However, some of this underperformance was dampened down by the Threadneedle UK Equity Income and Jupiter UK Special Situations Funds.

International equities also lagged behind their index, although the US was a bright spot. Despite some noise from the Trump administration regarding electoral fraud and a stubbornness to admit defeat, US equities moved higher, and with that the Dodge and Cox US Stock Fund continued to perform exceptionally well, supported admirably by the Miton US Opportunities Fund.

The Quilter Investors US Equity Growth Fund, managed by JPMorgan, was also added part way through the month and delivered strong performance.

Elsewhere, the Schroder Tokyo and Crux European Special Situations Funds were largely in line for the month, while laggards included the Veritas Asian, Morant Wright Nippon Yield and the Amundi Pioneer US Fundamental Growth funds, with the latter two being removed at the rebalance.

The emerging market equity component of the portfolios made some ground in November but was weaker overall than developed market equities, with China and emerging Asia paring back returns as the market rotated away from technology stocks.

That said, the Schroders Global Emerging Markets Fund stood out with a return in excess of 9%, which was well ahead of the other holdings, while the Artemis Global Emerging Markets Fund lagged a little bit despite finishing the month strongly.

Outlook

The (current) outcome of the US election has been generally well received by markets. On the assumption that President Trump’s ongoing legal challenges are unsuccessful, Joe Biden will become President, resulting in a Democrat President and House of Representatives.

Senate control is dependent on the run-off ballots in Georgia on 5 January where a Republican win (although Democrats are campaigning hard), would lead to a Republican Senate and a split government. This is arguably the best outcome for markets as it increases the likelihood of legislative gridlock and reduces the risk of some of the Democrats’ less market-friendly policies being passed.

Therefore, US political risk to equity markets from here is largely skewed to the downside, in the event that either Trump’s court cases delay Biden’s inauguration; or the Democrats win in Georgia, which could lead to less market-friendly policies such as higher corporate taxes.

Away from the election fallout, both parties are zeroing in on the size of the next US stimulus, designed to support affected citizens until coronavirus vaccines can be widely deployed. This appearance of a tentative agreement on the total amount of stimulus hides some material differences in opinion as to how the money should be dispersed, so we should expect more politicking over coming days and weeks and a potential delay to the outcome.

Meanwhile, there has finally been positive news with regard to coronavirus vaccines. The key to a sustained economic recovery will be behavioural changes by the majority of the population and this will require improved confidence to get out and about – simply put a vaccine is the best way to achieve this. Key to watch going forward will be the incremental newsflow about practical vaccine deployment as markets are currently less focused on short-term increases in coronavirus infections or fatalities given the brighter medium-term outlook.

Finally, we are hopefully in the final chapter of what feels like the never-ending Brexit saga. Looking through the political grandstanding, we continue to expect a ‘skinny’ trade deal between the UK and EU, which will finally allow companies to plan for the future, knowing the broad regulatory environment.

We believe this is likely to spur delayed corporate investment which should at least partially offset the negative impact of potential disruption early in the new year. We believe that domestically-focused small and medium-sized companies are better placed to benefit from increased visibility, as the large multinationals are generally more dependent on the global environment rather than the UK specifically.
Important information

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QIL-378-20/21076/220-1802/December 2020