INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 3 2020

The recovery in the equity markets, which started in the middle of the second quarter, continued apace in the third quarter before stopping to take a breath in September. During this period, specifically in August, the US S&P 500 had its best month since 1984 with a gain of 5.35% for UK (sterling) investors. The actual gain for the index was higher as Sterling strengthened by some 2.3% against the Dollar.

Indeed, the rally in equity markets meant that the US market was less than 5% away from its all-time highs. A major contributory factor to this incredible recovery has been the impact of the rallies witnessed in technology stocks. It is of little wonder that some of these stocks have gone parabolic as five years of ‘digital adoption’ has been squeezed into months, as a result of the change in the consumers’ behaviour. This, coupled together with an element of pent up demand which led to better economic activity than expected, continued the positive undertone for risk assets.

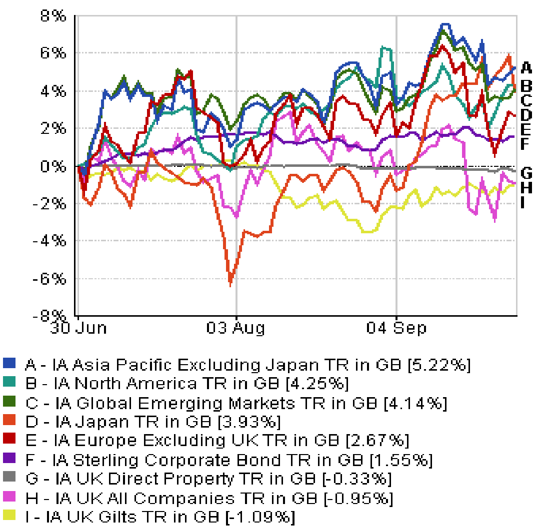
Regretfully, that is where the good news ends as, looking forward, we are now seasonally entering a period of time when markets have found it difficult to make positive headway and, this year specifically, could be very difficult with two factors worthy of note: the first one being the resurgence of the virus. Whilst humans now understand the virus much better, and we are better prepared and equipped to deal with the second wave, any tightening of the measures to combat the resurgence will lead to further delay in economic recovery. A viable mass scale vaccine is possible but we cannot bank on it. The second being the US Election. Biden led in the polls back in July when we first flagged this and still leads now but the polls got it very wrong in 2016. Investors now appear to be factoring in the risk of a contested election and political turmoil into the new year. An eventual clean sweep by the Democrats (President Biden, Democrat Senate, Democrat House) would possibly cause the most upset with an increase in corporation tax and regulation weighing on equity prices, but that would be counteracted by large scale spending on infrastructure, increases in the minimum wage, a larger than expected COVID-19 related stimulus package and a focus on environmental, social, and corporate governance (ESG) industries. Should the status quo be maintained or there is a mixed outcome with a Biden President, Republican Senate, Democrat House, it’s more or less business as usual, with our non-US exposure mitigating the risk of anti-tech sentiment.

TECHNOLOGY STOCKS SURGE

RESURGENCE OF VIRUS

AMERICAN ELECTION

BREXIT CLIFFHANGER



Figures shown are for a sterling denominated investor, for the 3 month period to 30/9/2020. Source: Financial Express Analytics

Back in Blighty, the picture is further complicated by the Brexit negotiations. Both sides seem to be playing hard ball and do not want to be seen to be the first one to blink. But with the same token, both sides are acutely aware the consequences of a no deal. As a result, we are likely to see some kind of agreement to avoid a no deal scenario. However, this coupled with the heavy weighting to Financials, Oil & Gas, Materials and Industrials, all out of favour with the low oil price and low interest rate backdrop, has been a dark cloud over the UK equity market. We trimmed the UK equity weightings in favour of overseas assets in models earlier in the summer which has helped performance recently. UK Property funds are, at last, in the process of reopening following the gradual removal of material uncertainty clauses triggered by the pandemic, but it is likely to be Q1 2021 until all are open again for trading.

As to the future, the equity markets are likely to continue to grind forward, as a result of which, in the near term, the gap between economic conditions and stock market valuations is likely to increase - but this gap will be filled by further action from policy makers and central banks. Fixed Income is also likely still to do well supported by Central Banks buying of large portions of the investment grade market. We are concerned about a possible rise in defaults, though, in high yield debt and our fixed income managers are being highly selective.

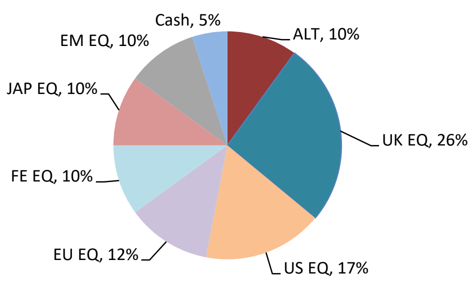
BAM Portfolio Models' Investment Performance

	30/09/2015-30/09/2016	30/09/2016-30/09/2017	30/09/2017-30/09/2018	30/09/2018-30/09/2019	30/09/2019-30/09/2020
Defensive Mixed Assets*	+3.76%	+4.78%	+2.50%	+1.29%	+4.09%
UK CONSUMER PRICE INDEX + 2%*	+2.62%	+4.93%	+4.65%	+3.82%	+2.83%
Defensive Balanced Mixed Assets	+8.25%	+4.56%	+2.53%	+4.58%	+0.43%
Social Impact Portfolio	n/a	+9.76%	+5.59%	+6.36%	+3.66%
ARC Sterling Balanced Asset PCI	+9.96%	+6.13%	+3.10%	+4.15%	-0.33%
Balanced Mixed Assets	+13.89%	+8.71%	+3.30%	+1.92%	+2.58%
ARC Sterling Steady Growth PCI	+13.54%	+8.67%	+5.15%	+4.84%	-1.20%
Focused Growth Mixed Assets	+16.33%	+15.85%	+7.95%	+1.26%	+4.76%
ARC Sterling Equity Risk PCI	+15.89%	+10.69%	+6.53%	+5.24%	-1.66%

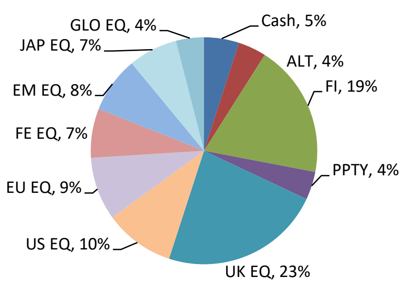
Notes: BAM figures take into account normal dealing costs but not Beckett fees. Source: BAM portfolio performance figures: Beckett Asset Management. Indices: FE Analytics - Total Return
ARC PCI: Asset Risk Consultants (ARC) operate the Private Client Indices (PCI) across the risk spectrum as performance measurement yard-sticks for discretionary portfolio managers.
Please note that the Defensive Mixed Assets model aims to outperform the stated benchmark over 36 month rolling periods. *DMA and CPI+2 data 12 months to the last available inflation print.
OVERSEAS EQUITY RETURNS FOR A STERLING DENOMINATED INVESTOR
PAST PERFORMANCE IS NO INDICATOR OF FUTURE PERFORMANCE

Target Model Portfolio Structures

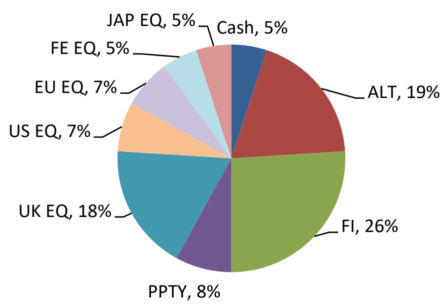
Focused Growth Mixed Assets



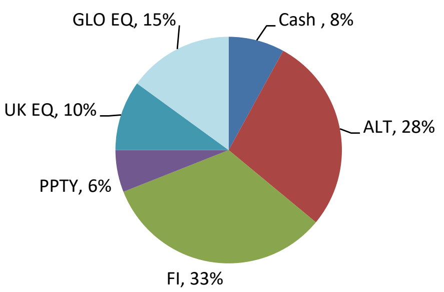
Balanced Mixed Assets



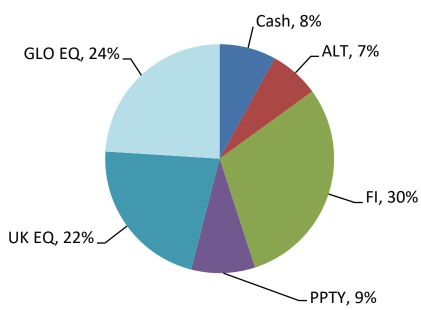
Defensive Balanced Mixed Assets



Defensive Mixed Assets



Social Impact



FI	Fixed Interest
UK EQ	UK Equities
PPTY	Property
EU EQ	European Equities
EM EQ	Emerging Markets Equities
FE EQ	Far Eastern Equities
JAP EQ	Japanese Equities
US EQ	US Equities
GLO	Global Equities
ALT	Alternatives

PLEASE NOTE THAT ASSET ALLOCATIONS MAY CHANGE OVER TIME

As is the very nature of investing, there are inherent risks and the value of your investment will both rise and fall over time. Please do not assume that past performance will repeat itself and you must be comfortable in the knowledge that you may receive less than you originally invested. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment. The opinions stated are those of Beckett Asset Management Ltd, which is authorised and regulated by the Financial Conduct Authority.

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