gemini asset management

marketmatters

Market Matters Quarter 4 2020

In this edition of Market Matters we will be focusing on the fourth quarter of 2020 but will also touch on some of larger themes that have run throughout 2020 too.

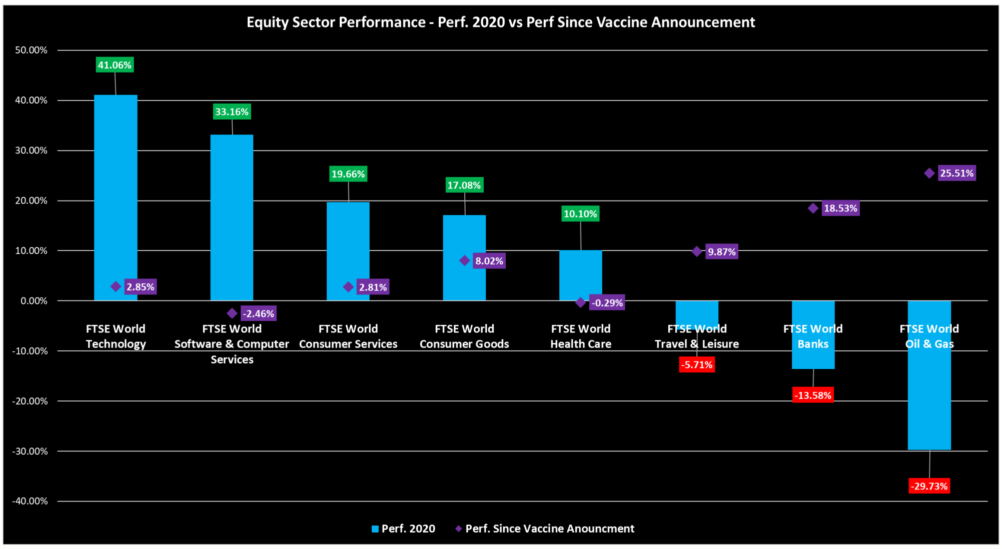
Vaccines & great comebacks

For much of the year it has often appeared a little nonsensical for some markets – the S&P500 and Investment Grade bonds in particular -- to be pushing record highs during the onslaught of bad news throughout the year, even if central banks and governments had been providing unprecedented levels of support. On the surface of it, this seemed to be a detachment from reality as investors were willing to pay even more for stocks which were already expensive, whilst leaving some 'safer' and cheaper companies out of their portfolios completely. When looking on a sectoral basis though, it all started to make sense.

The surge in some indices was down to the sectoral composition of the index, hence why the S&P500 in the US was nearly touching record highs, and the FTSE100 started off quarter 4 still roughly 20% down since the start of the year. The difference in fortunes were down to a few components, one of which was that this led to Technology companies and Online Retail companies doing fantastically well, whereas sectors such as Airlines or Hotels performed poorly, no matter how strong of a company they may have been.

The main driver for investment markets in Q4 was – for seemingly the first time in 2020 – genuine good news: Numerous Covid-19 vaccines were approved in record time, and they were shown to have extremely high efficacy rates to boot. As you can well imagine, this had a strong effect on most markets as the news of the vaccine approvals finally allowed us to see the first glimmers of light at the end of the dark tunnel that has been the Covid-19 crisis.

Not only was the vaccine news a welcome relief on a personal level but it also provided some relief on the investment front too as some of the sectors which had been hardest hit during this pandemic surged upwards as investors began to bet on a return to normalcy in 2021. Below is a chart which shows this reversal in fortunes that has been so prevalent in Q4 2020:



The **BLUE** bars show the performance of some Equity sectors since the start of 2020, whilst the **PURPLE** diamonds show the performance of the same sectors since the hugely positive announcement that the Pfizer-Bio'N'Tech collaboration vaccine had an efficacy rate of 95%.

Source: FE Analytics

31/12/19 – 31/12/2020

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The blue bars show that businesses which benefitted from us all staying at home, such as Technology or Software, have done well in 2020, whilst businesses which relied on physical customers, such as Travel and Leisure, or growing economies such as Oil & Gas, have suffered.

However, as investors began to see the light at the end of the tunnel, we've seen a surge in optimism push up the prices of the much-maligned sectors as investors begin to bet on some sort of return to normality later in 2021. **Fig 1** shows some of the hardest hit sectors had a complete reversal of fortunes since the vaccine news, with the biggest price bounces coming from those sectors which were hit hardest throughout the majority of 2020. However, it is still important to note that these sectors are still far away from where they started 2020; indeed, even though the Oil & Gas sector has risen by 25.5% since the positive vaccine news, it is still 29.7% down since the start of 2020.

This is telling us that markets are continuing to reflect the reality on the ground, highlighting that we still have plenty of things that need to go right for an effective vaccine roll out to help pull us out of the Covid-19 crisis, and return to what we used to call 'normal'!

Deal or no deal?

Throughout the fourth quarter the Brexit negotiations whipsawed between having a zero chance of success, and the possibility of a skeletal deal being agreed upon before 1st January 2021. Boris Johnson himself stated that it was "very, very likely" that trade talks would fail!

Investors were understandably torn given the uncertainty, with some pulling money out of the UK, and others increasing their exposures. In our portfolios, we were determined not to bet on either side of the binary negotiations given the sheer lack of hard evidence to suggest either outcome would be more likely. Given this, we remained pretty much neutral to our strategic asset allocation all the time taking comfort from the diverse constitution of our UK holdings.

Ever since the skeletal agreement was reached, we have seen UK stocks ride higher on the positive news and hopefully this may continue well into 2021. In recent years, primarily due to Brexit uncertainty, UK companies have been relatively unloved, and this has been exacerbated during the Covid-19 crisis as many of the hardest hit sectors like Financials and Oil & Gas make up large weights in UK indices. Happily, however, this means that after the positive news of the vaccines and the Brexit deal, there could well be a strong tail-wind behind UK equities moving through 2021.

US elections

As if the final quarter of 2020 was not busy enough, there was also the build-up and the preceding aftermath of the US elections to contend with!

Joe Biden won the necessary seats to claim victory in the electoral college for 2020 US Presidential elections, and since then, there has been a many a wave of emotion, bitterness and distrust which has been proffered by both sides of the political aisle.

Stimulus to the rescue!

Running with a common theme from our Market Matters series in 2020, stimulus continues to be a notable factor which has been, and will continue to impact asset markets. The central banks and governments around the world have been hard at work ensuring that the worst of the economic damage caused by the pandemic is mitigated through a huge variety of schemes.

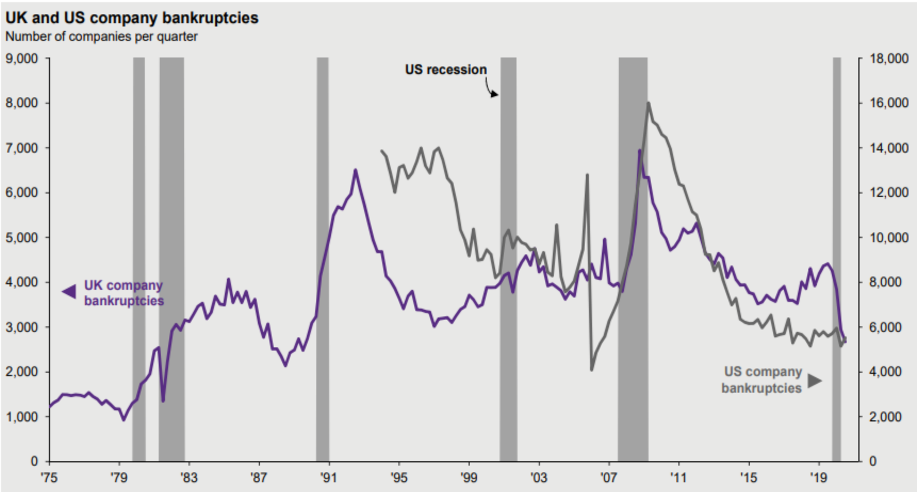
In 2020, we have touched on the worry that 'fiscal fatigue' could take hold as governments may find it harder to keep on providing the same level of support as they had done earlier in the crisis, with the biggest threat coming from the US where Congress failed to pass the necessary stimulus packages during the 2020 election cycle. This lack of action from congress was leading to rising fears surrounding business viability, employment prospects and the solidity of consumer spending which had been greatly bolstered by the rescue package earlier in the year.

Thankfully in the last few days of the year US lawmakers finally agreed on a pandemic relief plan that will extend many of the CARES (Coronavirus Aid, Relief, and Economic Security) act support measures, including direct payments to households and a continuation of the more generous levels of unemployment benefit.

Combined with the continuation of the fiscal packages from around the world, one of the more pleasing things we have seen in Q4 2020 was solid evidence that the rescue packages were making a genuine difference to economies.

In the **Fig 2** we can see company bankruptcies in both the UK, shown by the purple line using the left-hand axis, and the US, which is shown by the grey line using the right-hand axis. In 2020 thus far, we can see that the number of company bankruptcies in a quarter has fallen; in the UK company bankruptcies each quarter has fallen to its lowest level since the 1980s!

Fig 2: Source: JP Morgan Asset Management – 17th November 2020



Source: Administrative Office of the United States Courts, Refinitiv Datastream, UK Insolvency Service, J.P. Morgan Asset Management. Periods of "recession" are defined using US National Bureau of Economic Research (NBER) business cycle dates. Past performance is not a reliable indicator of current and future results. Data as of 17 November 2020.

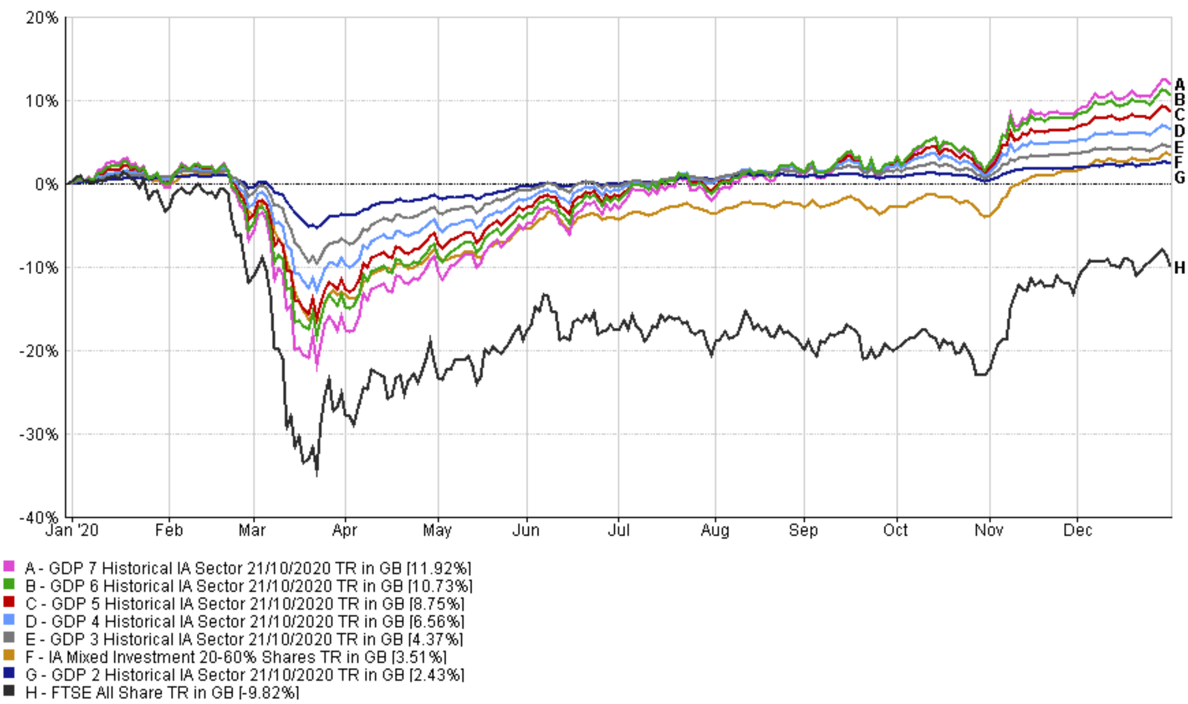
If we look back to the 2008 credit crunch, the number of businesses going under ever quarter was extremely high, yet this time around it appears as if the policy makers learned a very valuable lesson from that crisis in that it is not just the size of the stimulus that counts, it's also the speed. The support schemes put in place to help business-es during this pandemic were vast in scale but were also implemented with extreme rapidity and this has helped stave off the worst of the bankrupt-cies for now.

As we have frequently touched on in the Market Matters series, the main thing driving markets and economic performance has been the effectiveness with which regions have been able to contain the virus (with the notable exception being in the US).

Portfolio Performance

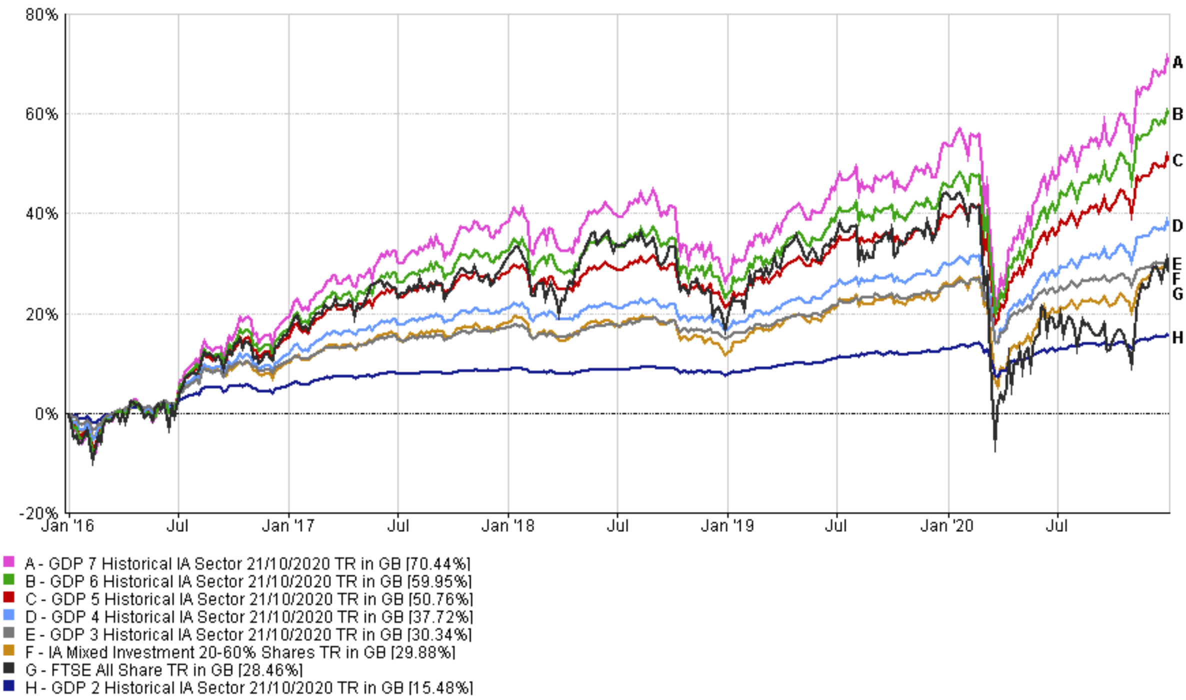
The charts below show performance of our discretionary risk rated portfolios over the course of the last 1 and 5 years. The charts are based upon our existing discretionary models looking back and so only take into account the asset allocation and fund changes made since March 2017 i.e. since the models were created. The data beyond this therefore presumes investment in the same funds and asset allocations as of March 2017. The charts compare performance against the FTSE 100 in order to demonstrate the importance of spreading risk through diversification. Whilst a direct comparison of our port-folios with an equity index such as the FTSE 100 is not like for like it does give an indication of volatility and performance differences on a risk-adjusted basis.

Portfolio Performance – 1 year:



Source: Financial Express Analytics data 31/12/2019 to 31/12/2020. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.

Portfolio Performance – 5 year:



Source: Financial Express Analytics data 31/12/2015 to 31/12/2020. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.

Asset Allocation and Fund Review

Discretionary Managed Portfolios (DFM)

The investment committee reviewed the existing asset allocation models in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. **As a result of this there were no changes made to the individual funds that we are invested in during quarter 4 2020, however, some minor changes were made to the asset allocation models as follows:-**

Fixed Income	-	Slight reduction in allocation to fixed income. The outlook for this sector remains challenging with low yields and whilst still forming a very important part of a diversified portfolio we have reduced exposure slightly in line with our strategic asset allocation from Dynamic Planner.
US Equity	-	Increase in allocation to US equity to maintain exposure to this sector within the compliance and risk parameters set by the company. Due to valuation concerns of the US equity market we remain underweight this sector.
UK Equity	-	During quarter 4 and leading into 2021 we have maintained our position to UK equity. With the changes recommended by Dynamic Planner in October this equates to a slight o overweight in this sector.
Property	-	Due to liquidity concerns and the current environment for this sector with the pandemic we have maintained our underweight to this sector.

Advisory Managed Portfolios

For plans held under our advisory service we are not recommending any changes to the asset allocation models or funds for the forthcoming quarter.