

Fund Management Monthly Commentary



Covering the month of August 2020

August Market Update

Margetts' monthly diary discusses major economic and market developments that occur over the month. It is written by the Fund Management team.

August was a positive month for equities, and notable for an improvement in small-cap stocks. The best performing sectors during the month were IA Japanese Smaller Companies (5.71%), IA UK Smaller Companies (5.60%), and IA Japan (4.84%). The worst performing sectors were IA UK Index Linked Gilts (-5.46%), IA UK Gilts (-3.84%) and IA £ Corporate Bond (-0.81%).

August saw Covid-19 cases continue to build, with the USA, Brazil, India and Russia remaining the worst affected economies. Signs of second waves in Europe and Asia also emerged in the case statistics, although it is notable that death statistics do not appear to be following the case trend. Sweden remains an intriguing case study in this regard, as there was no lockdown imposed, yet the same pattern can be discerned there as well as in countries with less severe lockdowns such as Japan. Outbreaks are typically appearing in cities and authorities are now able to impose localised lockdowns with ramped up testing facilities to isolate pockets of the virus. This bodes well for economic recovery as the likelihood of full-scale lockdowns, as seen earlier in the year, is much lower.

The US presidential election is rapidly approaching and polling between the two candidates remains sufficiently far apart to discount for a typical margin for error, with Joe Biden retaining a circa 7-8% lead nationally. One interesting piece of polling came out in August which suggested that the one area where Donald Trump retains an advantage over Biden, in voters' eyes, is economic competence. Although down from a 63% economic approval rating around January 2020, Gallup polling data suggests that, despite the Covid-19 influenced recession, Trump's mid-year rating remained high at c.47%. Having tied his own fortunes intimately with the US stock markets, if the incumbent can maintain this rating towards the final stretch, his re-election may not seem so implausible. As per the below chart, this number has been similar for the re-elections of Obama, George W Bush, Clinton and Reagan. One caveat is that the Coronavirus has suppressed the economy in voters' lists of top election concerns and the importance of the economy to voters is not as predictable as in usual election years.

Presidential Job Approval on the Economy

% Approve

	Reading closest to January in Q1	Reading closest to June in Q2	Final pre-election
	%	%	%
Trump (2020)	63	47	--
Obama (2012)	38	--	45
G.W. Bush (2004)	54	41	46
Clinton (1996)	44	49	58
G.H.W. Bush (1992)	24	21	18
Reagan (1984)	48	48	50

GALLUP

The Lebanese government declared a two-week state of emergency following a massive explosion in the port of Beirut that resulted in over 200 fatalities, around 6,500 injuries and caused such a substantial amount of property damage that approximately 300,000 people were left homeless. Around 2,700 tonnes of ammonium nitrate (equivalent to over a kiloton of TNT), confiscated by Lebanese authorities from the Moldovan ship MV Rhosus in 2013, had been stored unsafely in a warehouse at the port. Its ignition is thought to have been caused by a fire started by welding work in the warehouse.

Although the travel corridor list currently includes 67 countries, UK residents can only travel to 15 of these without facing restrictions on arrival. Travelers now face a 14-day quarantine when arriving back from Spain, France, Belgium, the Netherlands, Austria, Croatia, Czech Republic and Switzerland amongst other countries. The Foreign Office currently advises against travelling to these countries, invalidating most insurance policies.

The Bank of England now believe that the Covid-19 pandemic may not harm the economy as badly as they first thought, and a V-shaped recovery may be more likely. In August, the BoE's Monetary Policy Committee revised previous projections, predicting a 9.5% contraction in GDP in 2020, compared with the 14% drop predicted in May. Predictions of c.10% unemployment were also revised down in August to 7.5% ahead of the furlough scheme winding down in October.

Following the success of the 'Eat out to Help Out' scheme, many restaurants are continuing some sort of similar discounts in the wake of the scheme's popularity. More than 84,000 restaurants registered for the scheme, which saw more than 64 million meals claimed.

Technology stocks continued to surge; on 11th August, Tesla announced a 5 for 1 stock split to make its share price cheaper for retail investors, sending its shares up 7%. This year, Tesla's shares have surged over 200%, making it the highest-valued automaker in US history.

Brexit negotiations continued, with the UK and EU clashing over the future of fisheries and state aid. The end of year deadline to reach a deal is fast approaching, but it is not unheard of for a deal to be struck at the 11th hour, as was the case with the Withdrawal Agreement in 2019.

Strategy

Despite scaremongering from the press, we remain positive regarding the UK's continuing recovery from Covid-19, encouraged by the lower death rate per case of infection and hopes of a vaccine looking more likely.

The performance disparity between value and growth stocks has not been this distinct since the peak of the tech bubble in the late 90s. With major global indices continuing to rebound strongly and potential inflation pressures coming through, we may start to see a reversion in the performance of value and growth stocks. With this in mind, we retain a diversification between value and growth styles within the Risk Rated funds.

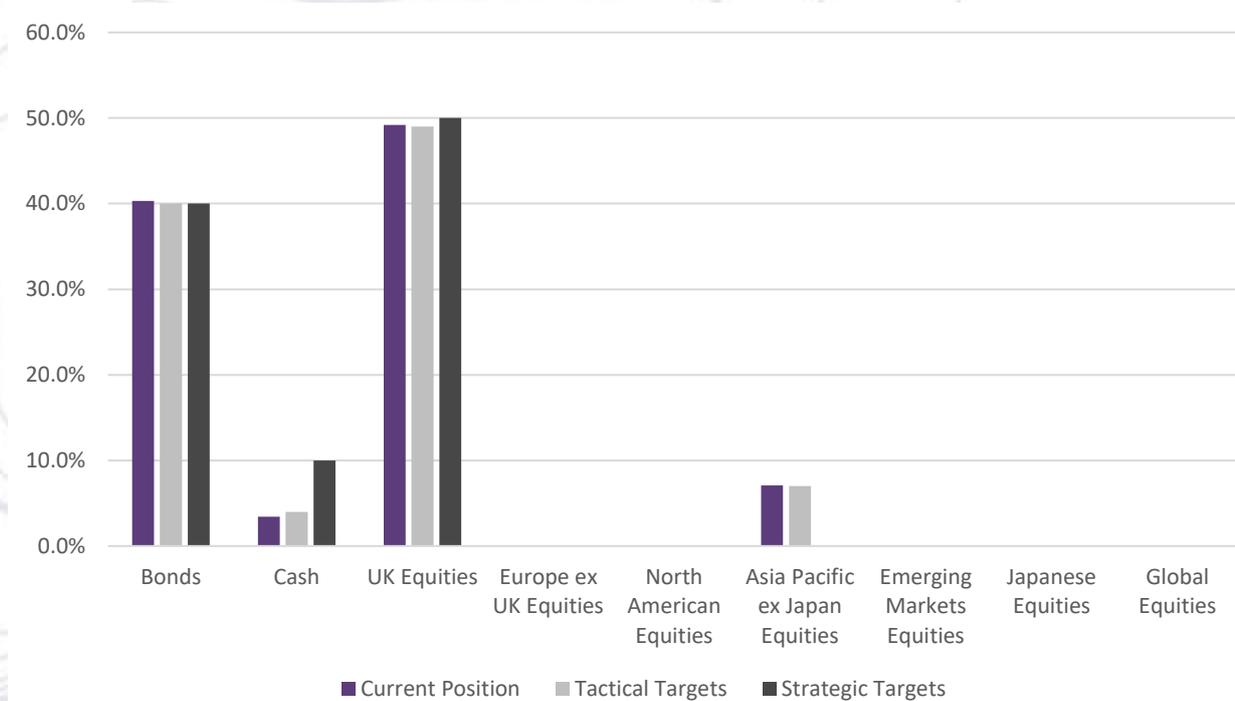
With bond yields well below the rate of expected inflation and fiscal stimulus and de-globalisation trends expected to feed into higher inflation expectations, longer-dated bonds appear to be adversely risky. As such, we favour short duration bonds, which are less sensitive to interest rate risk and provide income above inflation.

We retain an overweight position in developed Asian economies, which have emerged from the Covid-19 pandemic strongly, and an underweight allocation to the US, which has struggled to handle the virus and is experiencing much political uncertainty. We continue to favour the UK, which offers attractive value and with the expectations of a Brexit resolution.

Margetts Risk Rated Funds

The below charts show the current positions of the funds, the tactical (short term) targets, and the strategic (long term) allocations. We aim to keep the current positions in line with the tactical targets from week to week. The differences between the tactical and strategic targets reflect the views and convictions of the Margetts Investment Committee.

Providence



There were no changes made to asset allocation and/or fund selection in August.

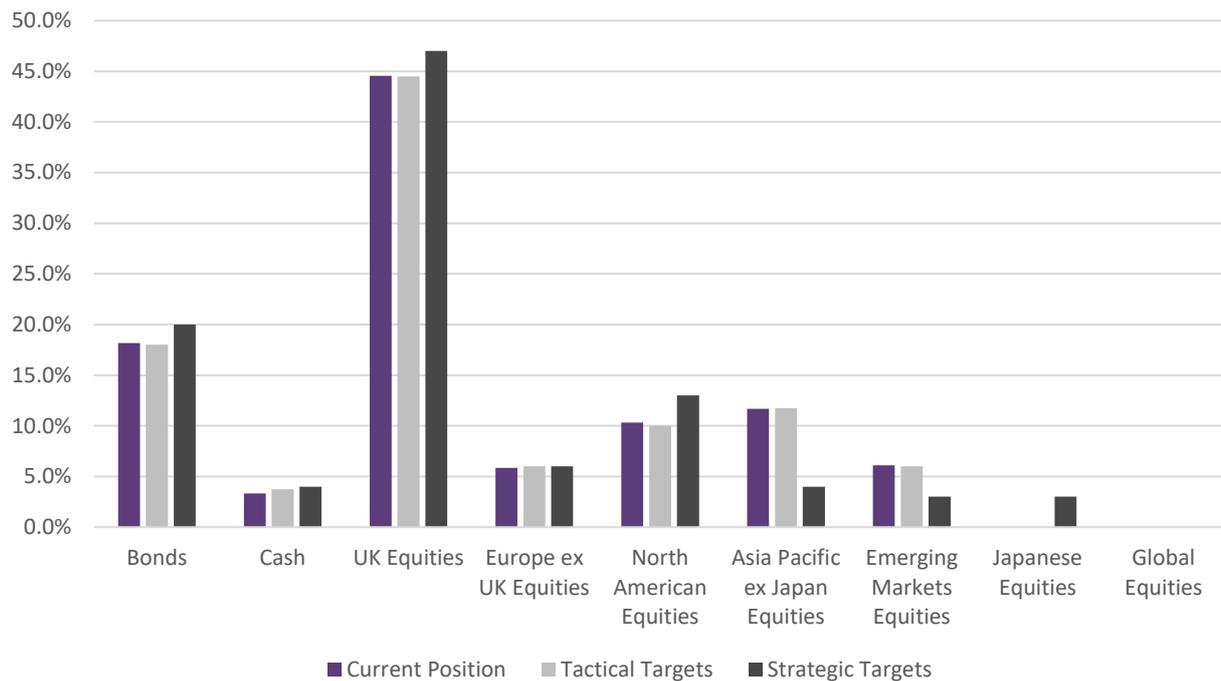
Providence was c.0.3 percentage points behind the IA Mixed Investments 20-60% Share sector during August.

All but one of the underlying bond funds were ahead of their respective sectors over 1 month, with shorter-dated strategies outperforming their longer dated peers.

The Legal and General Asian Income fund was ahead of the IA Asia Pacific sector over the month, which is an improvement on the previous months.

Within the UK, underlying funds with a value-bias were ahead of those with a growth tilt in August.

Select



There were no changes made to asset allocation and/or fund selection in August.

Select performed in line with the IA Mixed Investment 40-85% Shares sector during August.

All underlying bond holdings were in line with or ahead of their respective sectors over 1 month.

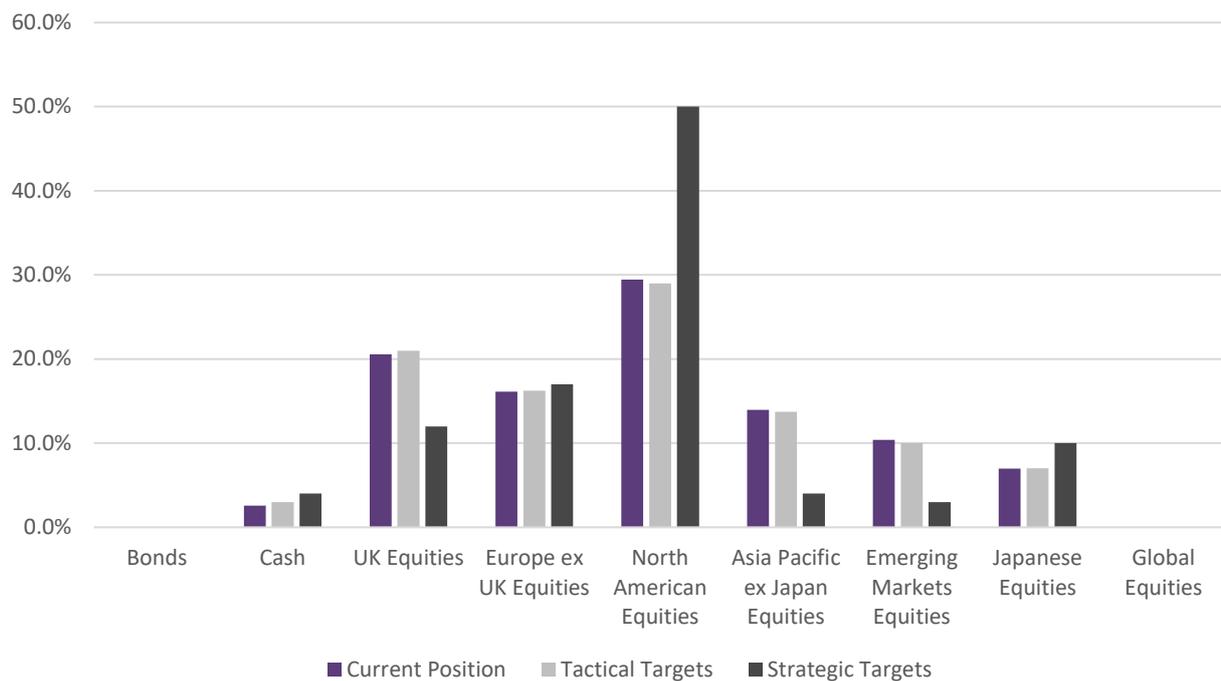
Within Asia Pacific, the positive performance of the Blackrock Asia strategy counterbalanced the relatively weaker performance of the Schroder Asian Income fund during August.

The only underlying Emerging Markets fund, UBS Global Emerging Markets, was ahead of the IA Global Emerging Markets sector over the month while the only underlying European fund was behind the IA Europe ex UK sector during this period.

Both underlying US holdings surpasses the IA North America sector in August.

The SVM UK Growth strategy was the standout performer within the UK and the whole portfolio, surpassing the IA UK All Companies sector by c.2.8 percentage points during the month.

International



There were no changes made to asset allocation and/or fund selection in August.

International was ahead of the IA Global sector by c.0.5 percentage points during August.

Both underlying Asia Pacific strategies were ahead of the IA Asia Pacific ex Japan sector in August however, the Baillie Gifford Pacific fund emerged as the strongest performer within the portfolio at c.5.9 percentage points ahead of the sector.

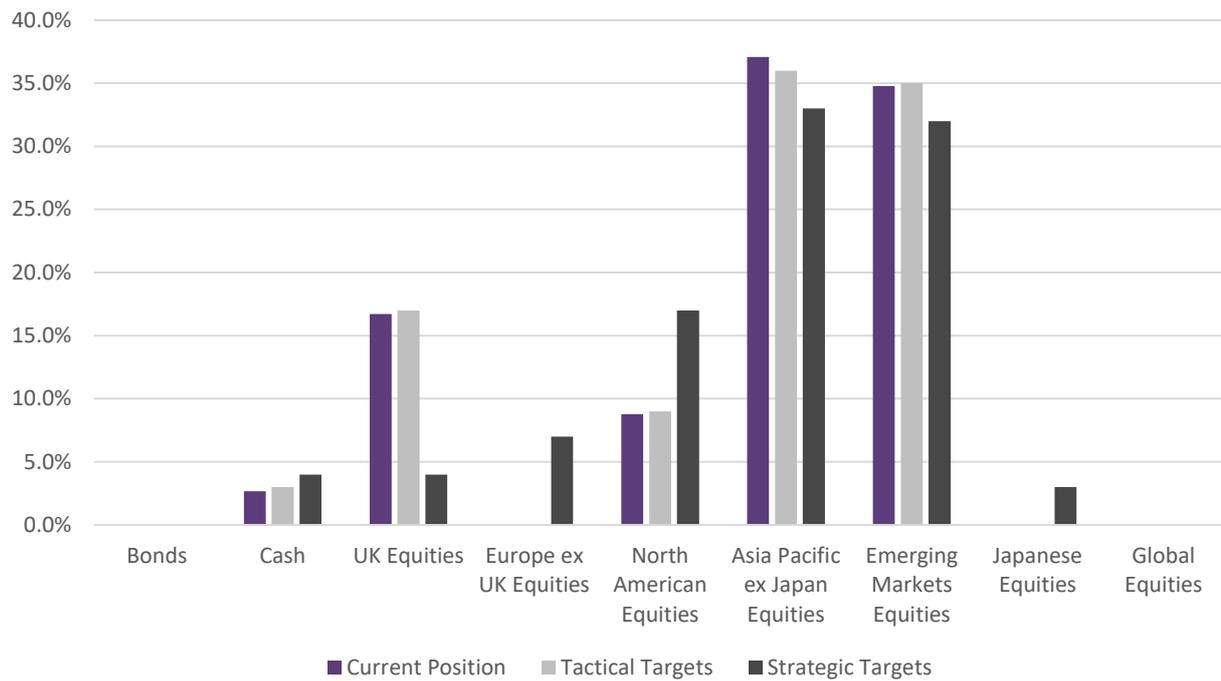
Within Japan, the strong performance of the Schroder Tokyo fund, assisted by its sterling hedge, balanced out the relatively weaker performance of the Baillie Gifford Japanese fund over 1 month.

The performance of both Emerging Markets holdings was strong in August. Both were ahead of the IA Global Emerging Markets sector, with the Threadneedle Global Emerging Markets strategy surpassing the sector by c.2.7 percentage points.

Most underlying European funds were in line with or ahead of the IA Europe ex UK sector during August and all underlying US funds were ahead of the IA North America sector during this period.

The underlying UK holding with a mid-cap tilt outperformed its more large-cap peers.

Venture



There were no changes made to asset allocation and/or fund selection in August.

Venture performed in line with the IA Flexible Investment sector in August.

Although most underlying Asia Pacific funds were behind the IA Asia Pacific ex Japan sector during August, all were positive in absolute terms.

The performance of the underlying Emerging Markets funds was strong over 1 month, with 4 out of 5 ahead of the IA Global Emerging Markets sector.

The only underlying US holding outperformed the IA North America sector in August.

As seen within International, the underlying UK holding with a mid-cap tilt performed ahead of those with a large-cap style.

Important Information

Please note that the contents are based on the author's opinion and are not intended as investment advice. This information is aimed at professional advisers and should not be relied upon by any other persons.

Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change. It remains the responsibility of the financial adviser to verify the accuracy of the information and assess whether the fund is suitable and appropriate for their customer.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested especially in the early years.

Important information about the funds can be found in the Supplementary Information Document and NURS-KII Document which are available on our website or on request.

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For any information about the company or for a copy of the company's Terms of Business, please contact the company on 0121 236 2380 or at 1 Sovereign Court, Graham Street, Birmingham B1 3JR

You can e-mail us at admin@margetts.com