

Meeting held on 20<sup>th</sup> October 2020

## Market Update

The Covid-19 pandemic tightened its grip on the west, with a second wave of positive cases pushing many countries towards additional counteractive measures. In England, a three-tier system has been imposed in order to target areas with high rates of infection. This has triggered a political backlash in the north of England, where Manchester's Labour Mayor Andy Burnham has been resisting the government's demands to escalate the city to the highest tier restrictions. Wales has gone further, declaring a "firebreak" lockdown of two weeks where non-essential shops, pubs and restaurants will close. Curfews and restrictions came into place across many European countries, with Spain, Italy, France and the Netherlands stepping up preventative measures. The virus remains most entrenched in the USA and emerging markets countries.

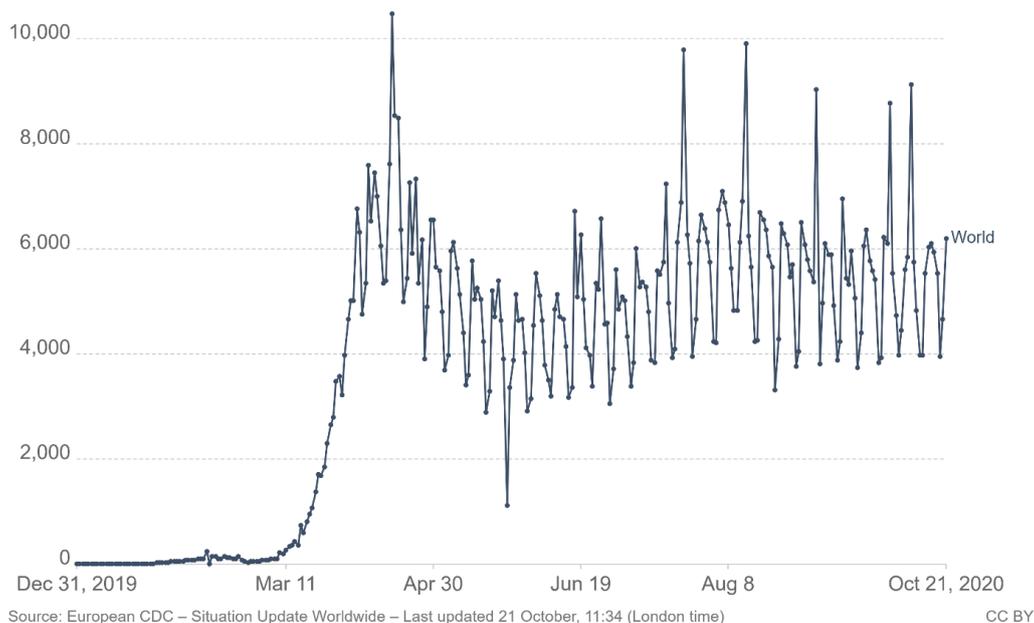
China is estimated to be the only major country that will manage to record GDP growth in 2020 from the IMF's recent forecasts, largely due to its successful quashing of the virus which has led to a v-shaped rebound in economic activity and sentiment. China's intention to test Qingdao city's entire population of c.9m in five days following a small outbreak demonstrates capacity not possible in the west, with the UK only currently capable of testing over 300,000 patients daily. Despite the continuing upward trend of worldwide cases, death statistics are not accelerating in the same way as during the initial outbreak, as can be seen in the below chart.

The US Election is fast approaching, and there is no sign of any significant shift in Joe Biden's national polling lead. The race remained much narrower in the major swing states, with the majority of recent polling within typical margin for error. The race in the Senate is also close, with a split house or a razor thin majority for the Democrats the most plausible outcomes. These outcomes will have a material impact on the scale of fiscal stimulus passed after the election, with a Democratic sweep likely to result in a c.\$3tn stimulus bill being passed.

Another fast approaching event is the end of the Brexit transition period. Boris Johnson declared the trade talks with the EU were over last week as they had failed to make any progress towards setting a draft legal text. Market participants evidently did not believe this to be more than hardball rhetoric, as sterling and UK equities did not react in the same manner as seen following previous Brexit setbacks. In the absence of official timetabled meetings, both sides are continuing to communicate, with Frost and Barnier engaging in informal discussions.

## Daily new confirmed COVID-19 deaths

Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.



## Strategy

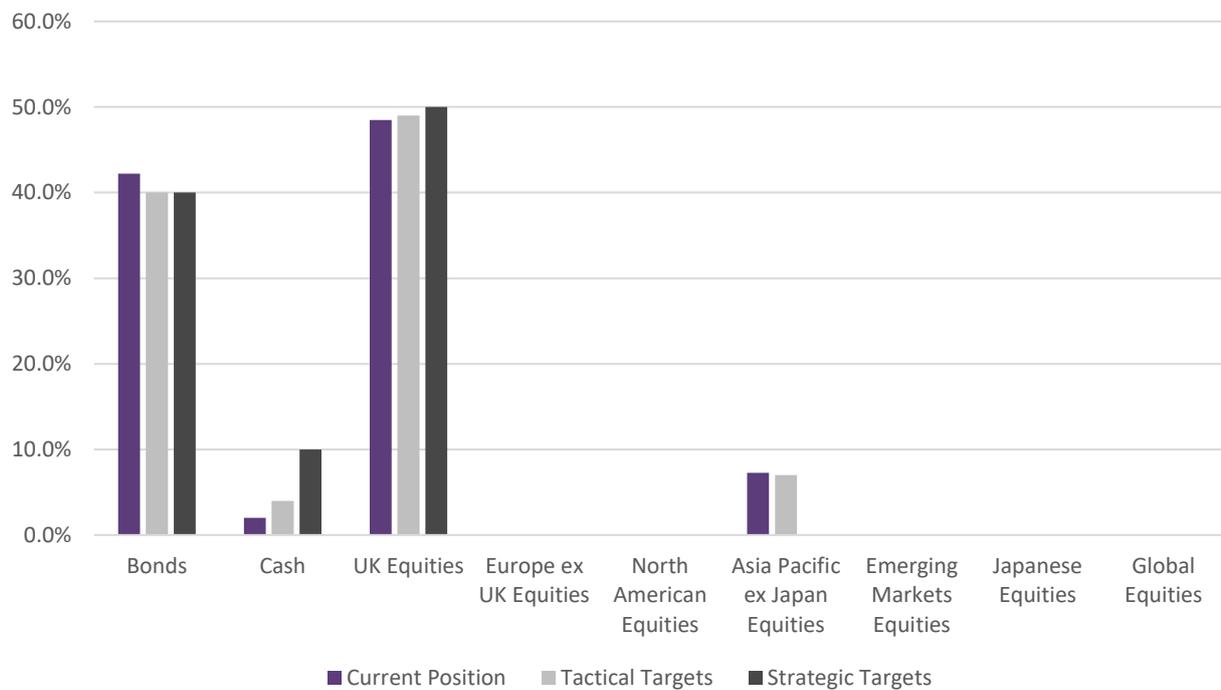
Bonds continue to offer poor value for investors, with central banks seeking to flatten the yield curve in order to facilitate cheaper long-term government borrowing. This is only likely to increase in western economies, with fiscal stimulus expected from the US in the wake of the election and other countries likely to follow this example. Our bond positioning at the short-dated end of corporate debt offers above inflation yield with acceptable levels of duration and credit risk. With the sheer scale of additional money injected into markets and the high level of household savings ratios, which will surely be spent when confidence improves, inflationary pressure could emerge in time, evaporating the return of overpriced long-dated bonds.

The Investment Committee favour equities due to their yield (particularly in the UK) and potential for capital appreciation. UK equities have been undervalued since the Brexit vote in 2016, in part due to the value-bias inherent in the major indices. The emergence of a Covid-19 vaccine or a respectable resolution to a trade deal with the EU are plausible candidates for an upward re-rating of UK equities. Our overweight allocation to Asia Pacific equities is largely due to the superior experience of Asian countries in suppressing the virus with targeted testing and lockdowns. China's rapid rebound offers a route map of economic recovery for many of these economies. Our emerging markets holdings are focused away from countries that are still struggling with the initial wave of the virus, with minimal exposure to Latin America. US equities continue to be driven by top heavy indices and tech performance. Our long-held concern that regulation will inevitably affect US mega-caps has been borne out by the recent DoJ legal case brought against Alphabet, the owner of Google, accusing the company of violating competition laws.

## Fund Comments

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

### Providence



**Asset Allocation:** The above chart, as of 20/10/2020, demonstrates the fund's current asset allocation and tactical targets set by the committee. No changes are being made to the tactical targets or current asset allocation this week.

**Fund Selection:** Providence fell behind the IA Mixed Investment 20-60% Shares sector over 1 week due to its overweight allocation to the UK.

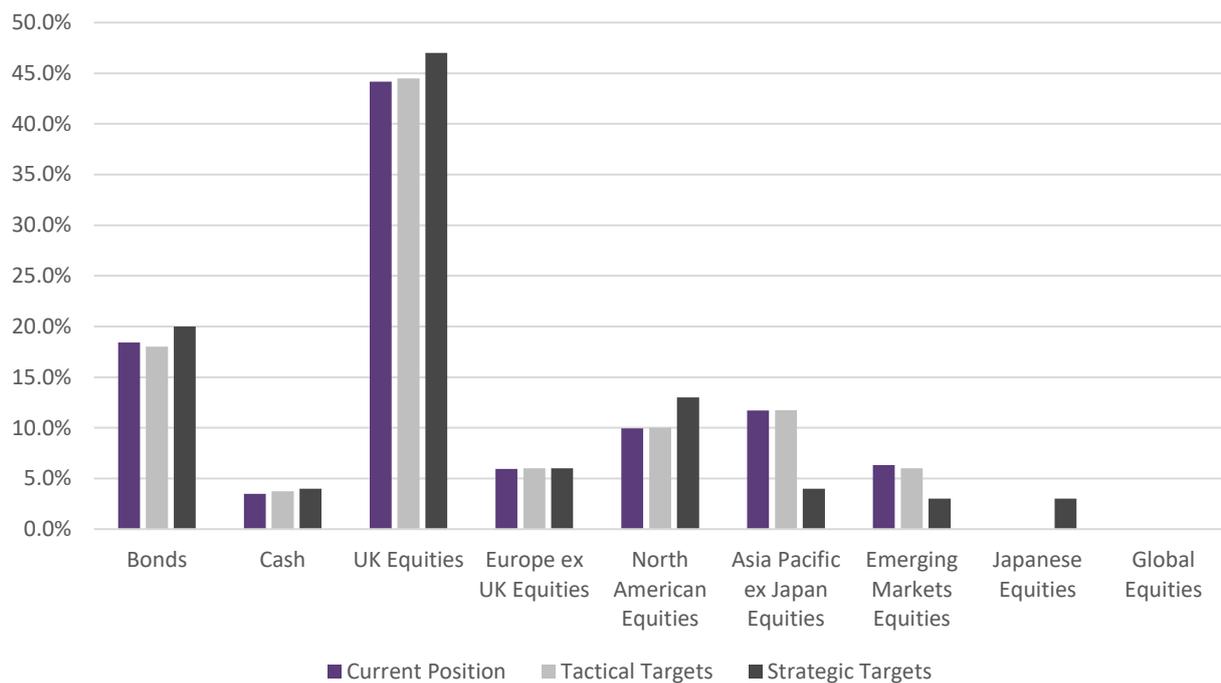
The L&G Asian Income fund was behind the IA Asia Pacific ex Japan sector over 1-12 weeks.

Longer-dated bonds within the portfolio outperformed shorter-dated holdings over 1 and 2 weeks.

Within the IA UK Equity Income sector, funds with a growth-bias outperformed the value strategies over 1 week.

No fund changes are being considered at this time.

## Select



**Asset Allocation:** The above chart, as of 20/10/2020, demonstrates the fund’s current asset allocation and tactical targets set by the committee. No changes are being made to the tactical targets or current asset allocation this week.

**Fund Selection:** Select returned behind the IA Mixed Investment 40-85% Shares sector over 1 week but was in line over 2 weeks.

Both Asia Pacific funds returned in line with the IA Asia Pacific ex Japan sector over 1 week.

Longer-dated bonds outperformed shorter-dated bonds in the portfolio over 12 weeks.

The UBS Global Emerging Markets fund outperformed the IA Global Emerging Markets sector through 1-12 weeks.

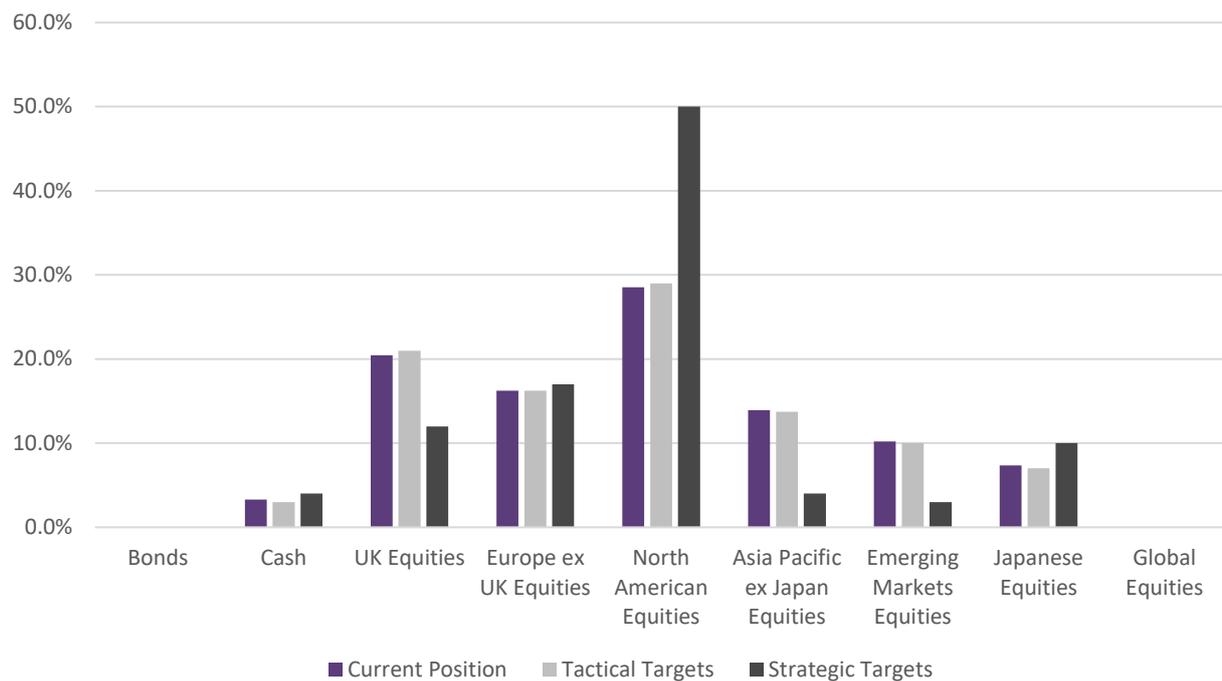
The Fidelity European fund returned ahead of the IA Europe ex UK sector over 1 week.

The positive performance of the Vanguard US Equity Index outweighed the relatively weaker performance of the Fidelity Index US fund over 4 and 12 weeks.

Within the UK, all but one of the underlying holdings were in line with or ahead of their respective sectors over 1 week. The SVM UK Growth fund remained the strongest performer in the portfolio over 12 weeks, ahead of the IA UK All Companies sector by c.8.5 percentage points.

No fund changes are being considered at this time.

## International



**Asset Allocation:** The above chart, as at 20/10/2020, demonstrates the fund’s current asset allocation and tactical targets set by the committee. No changes are being made to the tactical targets or current asset allocation this week.

**Fund Selection:** International fell behind the IA Global sector over 12 weeks.

The positive performance of the Baillie Gifford Pacific fund offset the weaker relative performance of the L&G Asian income fund through 1-12 weeks.

Both underlying Emerging Markets funds were in line with or ahead of the IA Global Emerging Markets sector through 1-12 weeks.

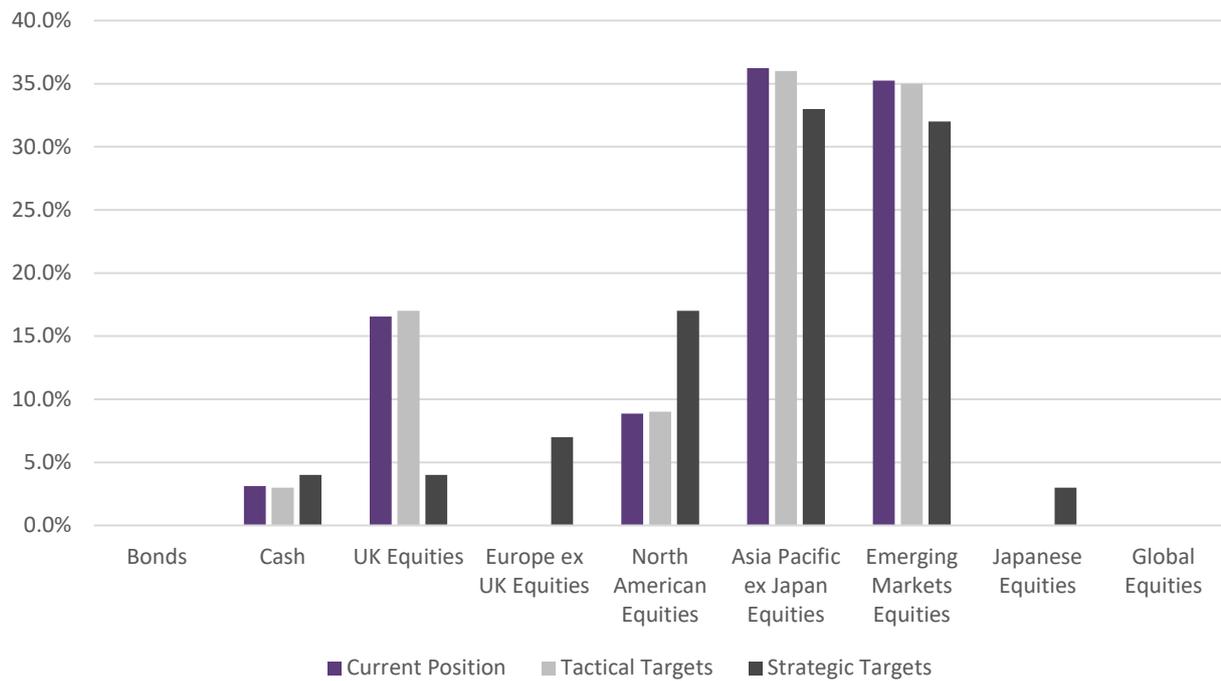
2 out of 3 European funds in the portfolio outperformed the IA Europe ex UK sector over 1 week.

Both underlying Japanese holdings lagged the IA Japan sector over 1-4 weeks.

Half of the funds in the IA North America sector within International returned ahead of the sector over 1 week.

In the UK holdings, mid-caps outperformed large-caps through 1-12 weeks.

## Venture



**Asset Allocation:** The above chart, as of 20/10/2020, demonstrates the fund’s current asset allocation and tactical targets set by the committee. No changes are being made to the tactical targets or current asset allocation this week.

**Fund Selection:** Venture lagged the IA Flexible Investment sector over 1 week but was ahead through 2-12 weeks.

3 out of 5 Asia Pacific funds returned in line with the IA Asia Pacific ex Japan sector over 1 week.

All Emerging Markets holdings within the portfolio returned ahead of or in line with the IA Global Emerging Markets sector through 1-4 weeks.

The only North American holding outperformed the IA North America sector over 4 and 12 weeks.

As with International, UK mid-caps outperformed large-caps through 1-12 weeks.

No fund changes are being considered at this time.

## **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.

## **Issued by Margetts Fund Management Ltd**

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