

Meeting held on 27<sup>th</sup> October 2020

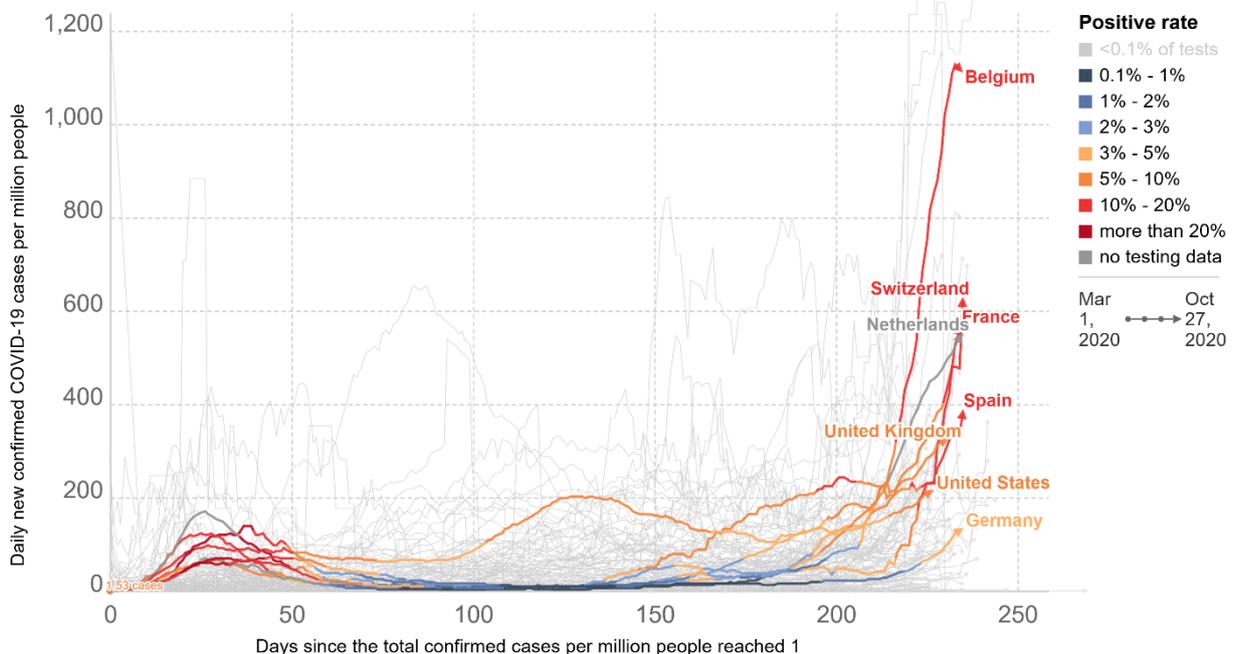
## Market Update

Equity markets slumped at the beginning of this week as the reality of a northern hemisphere winter besieged by Covid-19 sank in for investors. The possibility of a Christmas where families cannot meet, and the forthcoming lack of consumption inherent in that assumption, pushed European stock markets to their lowest point since the height of the first wave of the Covid-19 pandemic in Q2. The rush to risk-off assets saw German Bunds match their March heights, and many other long-dated bonds push above their prior highs.

The USA and Emerging Markets countries remain the worst affected overall by the virus, but the second wave in Europe is now catching up. The seven-day rolling average for confirmed cases has rapidly escalated in Europe, far beyond the heights of the early days of the pandemic, as can be seen in the chart below.

### Daily new confirmed COVID-19 cases per million people

Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.

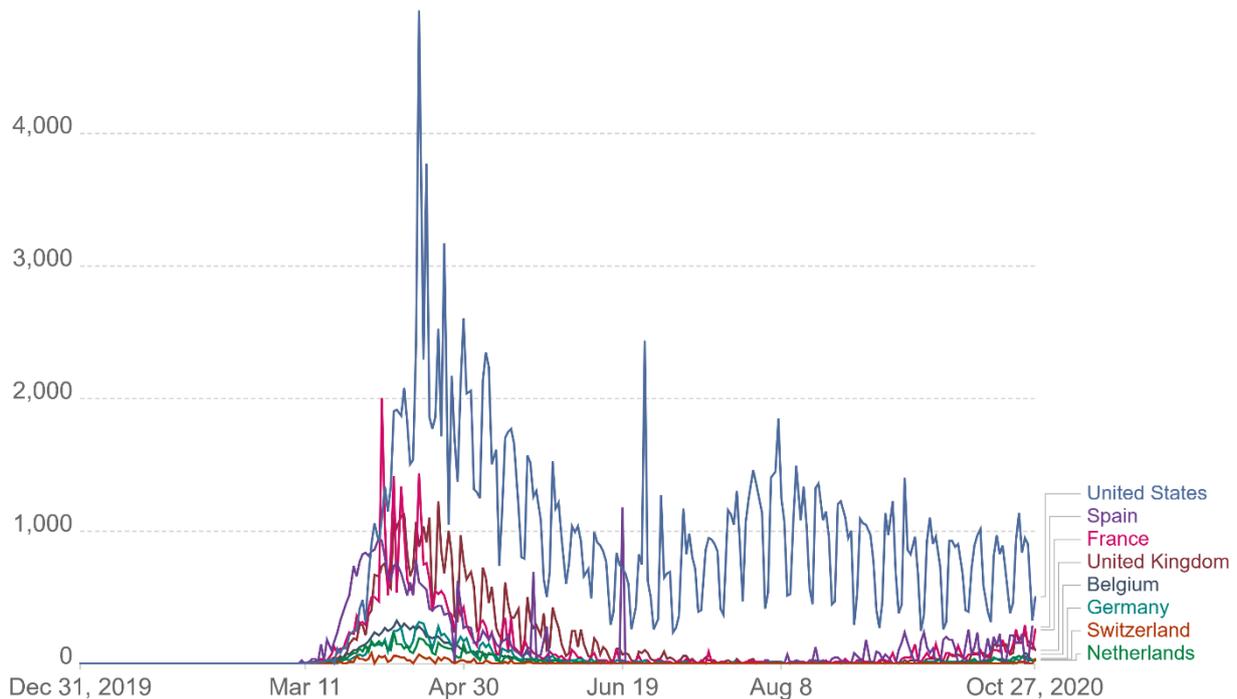


Source: European CDC – Situation Update Worldwide – Last updated 27 October, 10:05 (London time), Official data collated by Our World in Data  
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If we compare the same countries in terms of death count from the virus on the chart below, despite the surge in cases, the death count is not seeing the same spike as in the initial stage of the pandemic.

## 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.



Source: European CDC – Situation Update Worldwide – Last updated 27 October, 10:05 (London time)

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Brexit talks resumed after last week's hiatus in negotiations. Michel Barnier travelled to the UK to meet with Lord Frost, with both sides demonstrating a willingness to make concessions and push towards a conclusion. Barnier prolonged his stay in London in order to continue negotiating, and this, along with no leaks to the media, indicates that progress is being made.

In the US, a huge number of early ballots were recorded, with close to half the total votes from 2016 already cast. The voter turnout could be a significant percentage of the eligible population. The polls at a national level remain consistently in Biden's favour, but these predictions matter less than the state-level predictions in the swing states. Betting data is indicating a swing towards Trump in Florida and North Carolina, which would total 44 electoral college votes. Based on current data, Trump would still need to swing more states away from Biden, with Arizona and Pennsylvania the most plausible of the battleground states. Any chance of fiscal stimulus being passed before the election has been quashed by the adjournment of the Senate until November 9<sup>th</sup>. Before adjourning, the Senate voted along party lines to approve the nomination of Amy Coney Barrett to the Supreme Court, ensuring that one of Trump's enduring legacies, regardless of the election outcome, will be most conservative Supreme Court in decades.

## Strategy

Equities continue to offer a superior yield to bonds and form the majority of our risk rated funds. It is our view that UK equities are attractively priced, with quality companies trading at historically low multiples. Positive Brexit developments towards a deal ought to trigger a significant upward re-rating of UK equities and any positive vaccine news should also benefit their valuations, with the index naturally biased towards value and comprising a significant number of energy and consumer cyclical stocks.

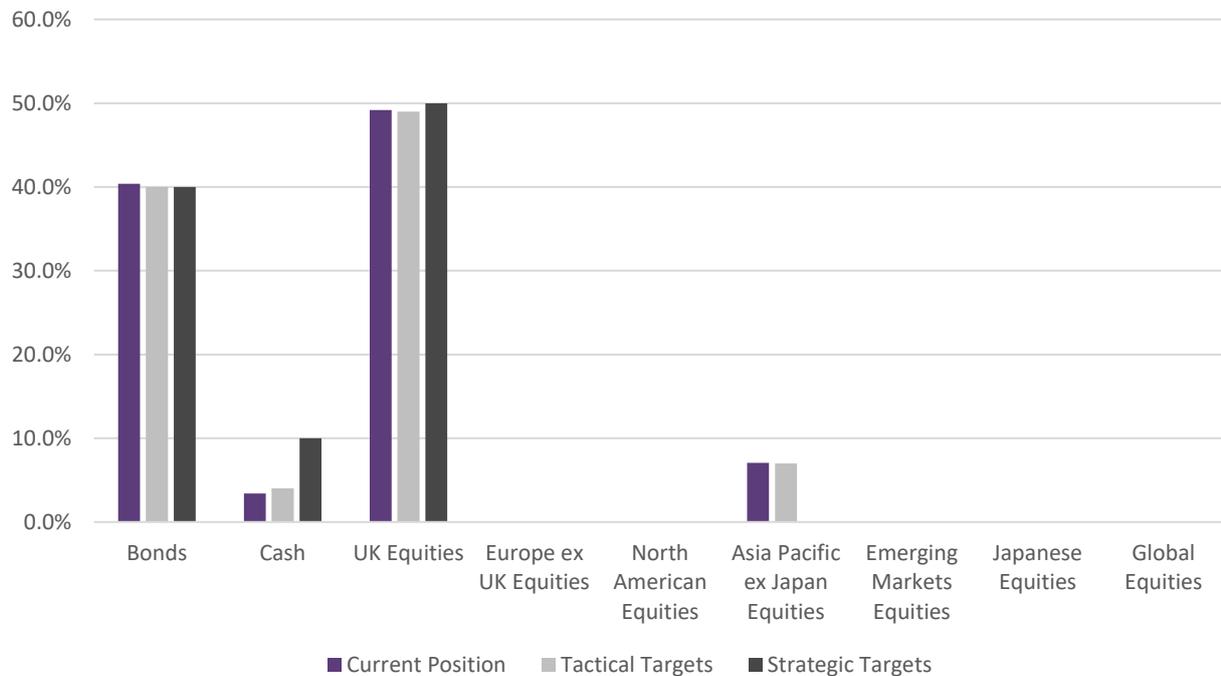
We favour Asian economies in our overseas equities, as these countries have demonstrated a better handling of the pandemic than the west, with China showing signs of a rapid recovery, or as much as is possible without a vaccine. Chinese data shows excellent returns to growth in all areas except for tourism. Our Emerging Markets holdings are also biased towards eastern economies, with little exposure to Latin America.

In bonds, we remain concerned over the scale of QE and its effect on bond valuations, with central banks suppressing the long end of the yield curve to ensure borrowing costs for the pandemic are not insurmountable. While inflation is not imminent, we believe that it must feed through into the real economy in some capacity, and at this point long-dated bonds, already losing money or breaking even for investors, are expected to fall into deeply negative real returns territory. Our positioning at the short end of the bond market provides above inflation yield with much lower duration and credit risk.

## 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 27/10/2020, 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.

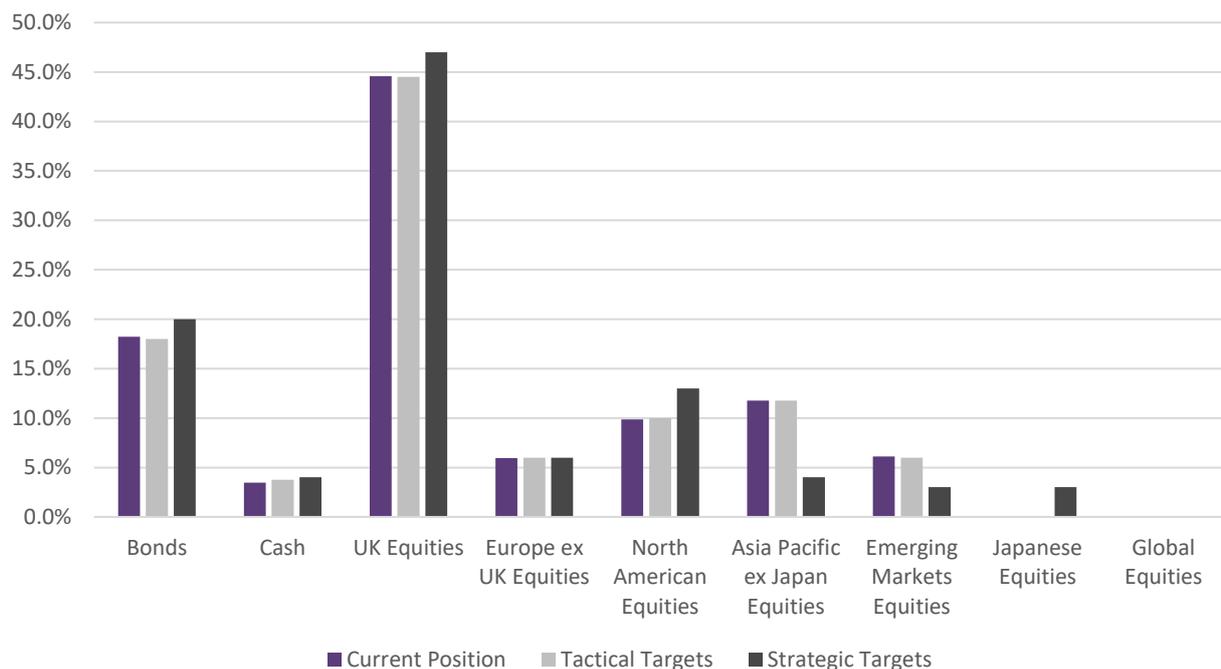
**Fund Selection:** Providence outperformed the IA Mixed Investment 20-60% Shares over 1 week.

The L&G Asian Income fund returned c.0.5 percentage points ahead the IA Asia Pacific ex Japan sector over 1 week. Domestic bonds outperformed global bonds within the portfolio over the same period.

Within the IA UK Equity Income sector, fund performance was mixed, with half of the funds returning above or in line with the sector over 1 week.

No fund changes are being considered at this time.

## Select



**Asset Allocation:** The above chart, as of 27/10/2020, 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 ahead of the IA Mixed Investment 40-85% Shares sector over 1 week.

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

All bond funds within the portfolio returned ahead of or in line with their respective sectors through 1-4 weeks.

The UBS Global Emerging Markets fund lagged the IA Global Emerging Markets sector over 1 week but remained in line with or ahead of the sector through 2-12 weeks.

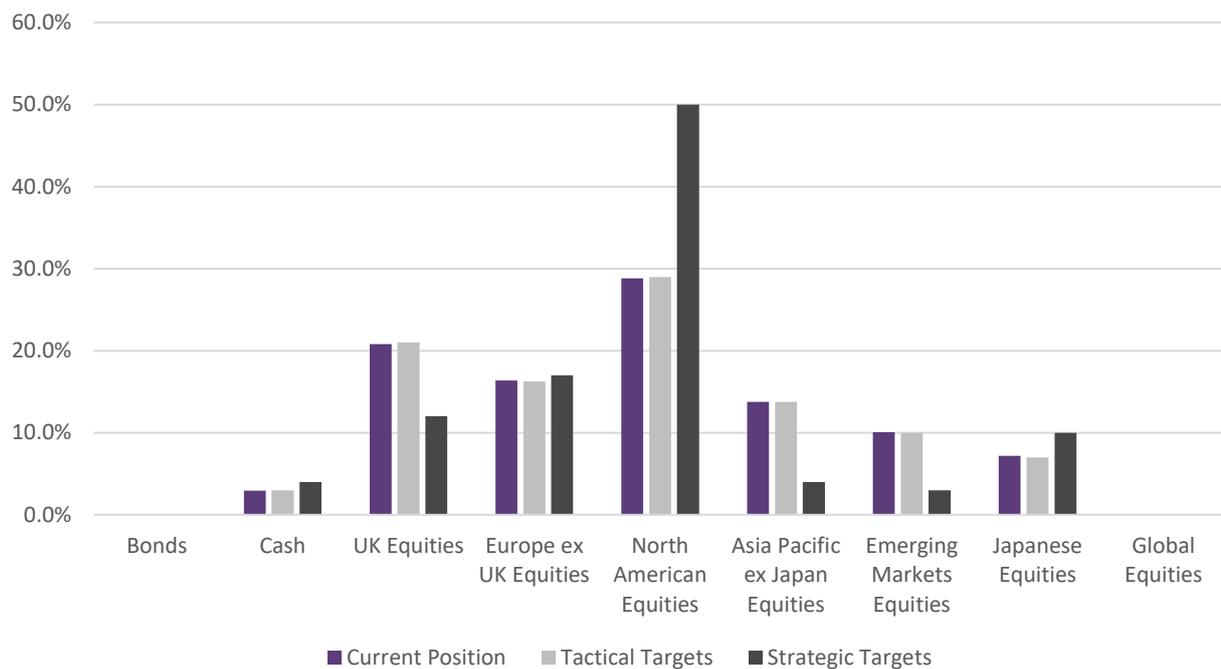
The Fidelity European fund performed in line with the IA Europe ex UK sector over 1 week.

The positive performance of the Vanguard US Equity Index fund outweighed the relatively weaker performance of the Fidelity Index US fund over 1 week.

Amongst the UK holdings, value strategies outperformed over 1 week, with both the Jupiter Special Situations and ASI UK Equity Income Unconstrained funds pulling ahead of their respective sectors over 1 week.

No fund changes are being considered at this time.

## International



**Asset Allocation:** The above chart, as at 27/10/2020, 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 outperformed the IA Global sector over 1 week.

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

Both underlying Emerging Markets funds were in line with or ahead of the IA Global Emerging Markets sector through 4-12 weeks.

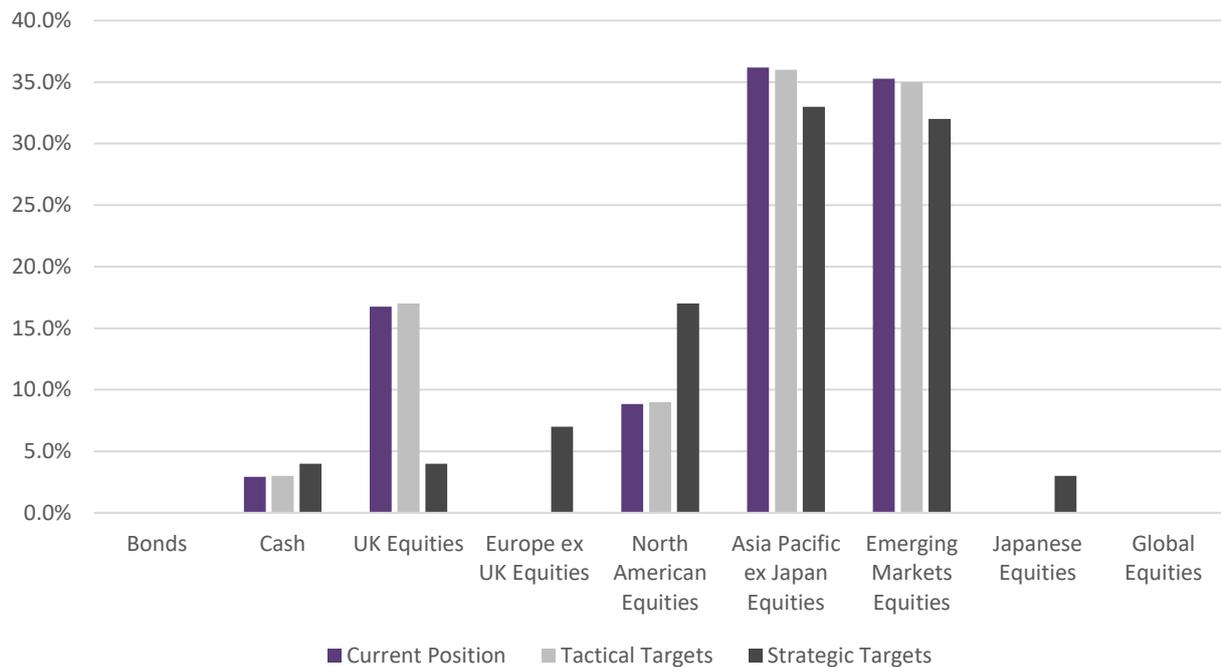
All European funds in the portfolio returned ahead of or in line with the IA Europe ex UK sector over 1 and 2 weeks.

Both underlying Japanese holdings returned ahead of or in line with the IA Japan sector over 1 week.

Half of the funds in the IA North America sector within International returned ahead of the sector over 12 weeks.

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

## Venture



**Asset Allocation:** The above chart, as of 27/10/2020, 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 outperformed the IA Flexible Investment sector over 1,4 and 12 weeks.

The Asia Pacific funds in the portfolio struggled over 1 week, with 3 funds returning behind 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 over 4 weeks.

The only North American holding outperformed the IA North America sector over 1 week.

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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