MAZARS WEALTH MANAGEMENT INVESTMENT NEWSLETTER

Q4 2020

Global stock markets built on the astonishing rebound from the Spring to post further, albeit more modest, gains during the third quarter of the year. Global stocks rose by nearly 5% in Sterling terms. That said, again the rises were far from uniform geographically, with US and Japanese equities posting strong returns whilst Europe struggled to a marginal positive return and UK equities lost further ground. Aside from Equities, Gold started the quarter strongly, but then sold off in early August as safe haven assets including the US Dollar retracted in less volatile markets.

There has been a noticeable change in market behaviour when it comes to news of a vaccine or therapy for Covid-19, with reports of successes and set backs not causing bouts of exuberance and panic in the way they did during the Spring. Partly this reflects a more grown up understanding of the medical situation – we no longer hope for an overnight cure – and relatedly, an acceptance that the virus will be with us for some time at least, requiring governments to find ways of keeping economies open to the fullest extent possible given the risks to life.

Thus we find ourselves living not only in an age of ultra low interest rates with little prospect of this changing in the medium term, but also in a time where direct fiscal support has become a necessity to keep the show on the road. In the US a bill to release a $2.2 trillion fiscal support package is making its way through congress. Its progress will be hindered by the split legislature (for now at least) and complicated by the November elections, but sooner or later a massive deal will be agreed, funded as always from future tax receipts. This is not insignificant stuff, and whilst the case for doing it is sound the repeated questions of its cost, the accumulated debt, and when the 'chickens will come home to roost' are persistent.

As well as the struggles of fighting the coronavirus, the UK and Europe face the more manmade issue of Brexit. Most investment commentators seem to believe that some sort of agreement will be found, and if so, it will probably be found at the eleventh hour. Such assumptions are often weighted to one's own one's own preference. Given visibility of the final outcome is almost completely obscured we see no reason why not to prepare our portfolios for the eventualities of either a basic deal or no deal at all.

At our September meeting the Investment Committee voted to retain our close to neutral position in Equities and our overweight to Gold. We continue to hold underweight positions in low yielding Sovereign Debt and the Commercial Property Sector. We reinstated a degree of currency hedging within our Overseas equity exposure, mindful that Sterling is the primary transmitter for Brexit developments.

I hope you find this newsletter interesting and relevant to you, and I would very much welcome any feedback you may have. Please do feel free to get in touch with your thoughts either by phone on 020 7063 4259, or by email on david.baker@mazars.co.uk.

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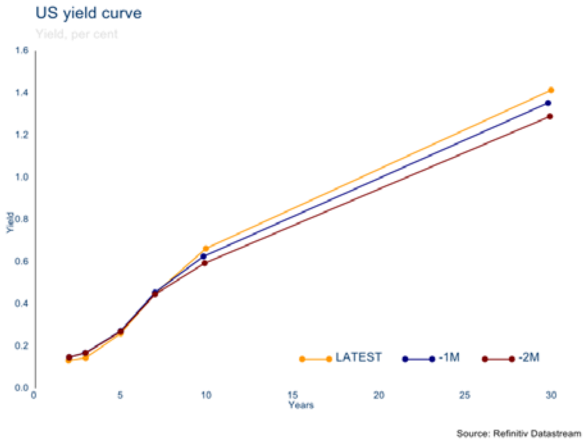
Economies and markets in brief

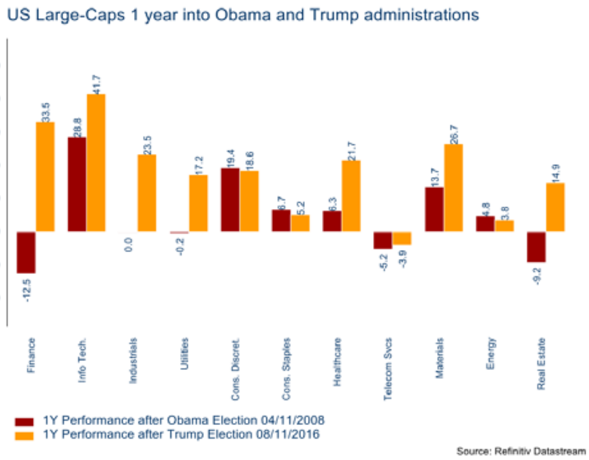
US Election Looming

In 2016 Donald Trump pulled off a surprise victory in the US Presidential Election. Due to concerns over possible trade wars there had been suggestions that a Trump victory could see markets sell-off. However markets rallied significantly as Republicans won a trifecta of the Presidency, the House and the Senate, which allowed the passing of legislation that lowered taxes. Trifectas are generally positive for markets as they allow the ruling party to get things done. Currently Republicans hold the Senate (which they have a 50/50 chance of keeping) and Democrats the House (which is likely to stay as is), so a trifecta is possible for the Democrats but an uphill battle for Republicans.



Brexit

Both sides in Brexit negotiations appear to be playing hard-ball, with "no-deal" looking increasingly likely. The UK Government has even brought legislation that would see it breaking the previous treaty to prevent a de-facto border between Northern Ireland and the rest of the UK if no deal is reached, which at the time of writing has been rejected by the House of Lords. We have already passed supposed deadlines to prevent the UK leaving without a deal in January, however in reality negotiations are continuing and some sort of deal that again delays a reckoning cannot be ruled out. That said the UK Government appears to be forging ahead with no-deal planning. Although Sterling would likely fall if there is no deal, which is looking the likelier outcome, it has a significant potential upside should this not be the case. Our concern is greater for the risk of Sterling upside, which is why we have hedged some of our Global equity exposure.



The Federal Reserve's New Inflation Policy

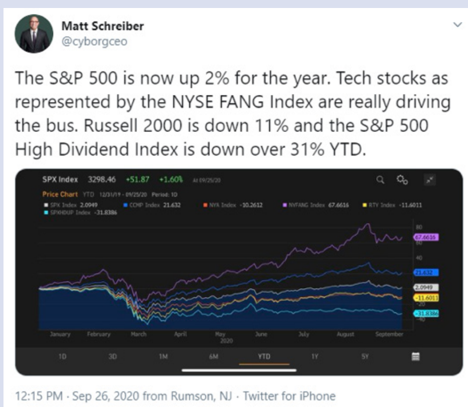
In a decision for the history books, the US Federal Reserve, the world's de facto central bank, abandoned a hard 2% inflation target in favour of a more flexible regime, attempting to prevent deflation resulting from secular stagnation exacerbated by the persistent Covid-recession. There will also be a greater focus on full employment. If inflation has been lower than 2% for some time, it will now be allowed to "run hot" for a period so that inflation is 2% on average. Long-dated government bonds, which are negatively affected by inflation, sold off on the news, causing a steeping of yield curves. Our portfolios, which are underweight Gilts and long-dated exposure, have benefitted from this move.

JARGON BUSTER

THE ELECTORAL COLLEGE

In the US Presidential Election each state has a certain number of votes on who should be the next president. The figure is based on the number of House of Representative districts in the state, plus 2 for the number of Senate seats. So a state with 6 House districts would have 8 votes, while one with 15 House districts would have 17 votes. There are 538 votes overall, so a candidate needs 270 to win.

WHAT'S BEING SAID ON TWITTER

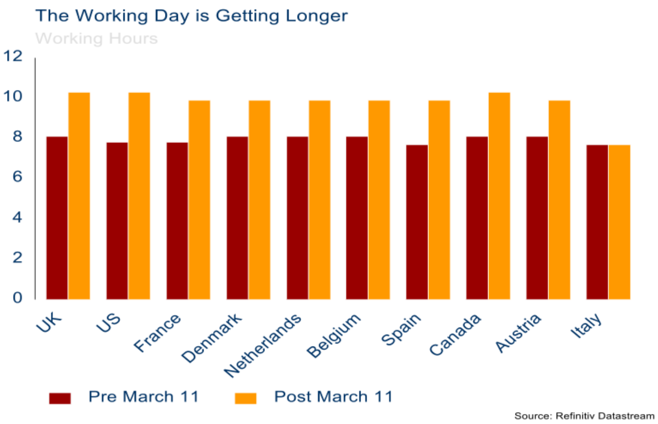


Working From Home: The New Normal or Just a Fad?

The Government has once again asked workers to work from home if they can, reversing the Prime Minister's request in July to encourage workers back to their office. This change of policy seeks to mitigate the impact of the resurgence of the Covid-19 disease. The UK now walks a tightrope hoping to tackle the virus without harming the economy. As the UK looks set to deal with new Covid-19 restrictions for another six months, we look back on what the first six months have meant for the world of work.

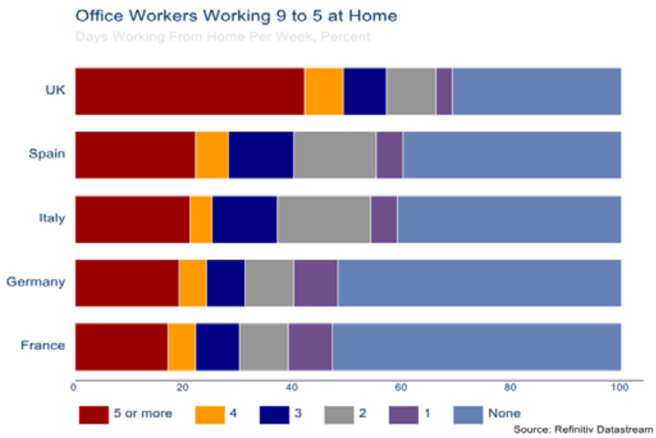
Digital Transformation

In April Microsoft CEO Satya Nadella stated he's "seen two years' worth of digital transformation in two months". The shift to remote working has been swift: Microsoft Teams have more than 75 million daily active users, while Zoom hosts 208,333 participants in meetings every minute. Many employers who had previously resisted requests for greater remote working have reversed these decisions following the expansion of their virtual networks. Schroders and Linklaters, established firms in the finance and legal sectors, have allowed employees greater discretion to determine their working habits even after the peak of the crisis is over.



What John Maynard Keynes Got Wrong

In 1930, John Maynard Keynes predicted that by 2030, due to productivity increases, the average Briton would be working 15 hours a week. This, sadly, does not appear likely to be the case. In fact, the working day is getting longer with the working-from-home culture in full swing. A combination of less time lost to commuting (the average Londoner commuted 74 minutes a day prior to the crisis) and the conversion of private dwellings into workspaces is stretching the working day longer. Britain, which has one of the highest rates of working from home globally, with over 40% of office workers now full-time at home, has also seen one of the largest increases in the length of the working day.



Slacking-From-Home?

JPMorgan CEO Jamie Dimon has been especially critical of the productivity of remote workers, citing an observed fall in productivity on Mondays and Fridays. He hinted that younger workers seem to be especially impacted and that 'creative combustion' is lost when workers aren't sound boarding off each other at the office. His claims are somewhat dubious at the aggregate level, a survey by Willis Towers Watson found only 15% of respondents stated working-from-home instigated a material negative impact on productivity. In fact, there is perhaps some evidence workers might be more productive. In the period after lockdowns, meetings rose in attendees and count whilst falling in length. This suggests more workers are sharing information related to more projects in less time.

What does this mean for markets?

So far the evidence suggests that the benefits of working from home outweigh some of the issues. If workers are in fact more productive working from home, it is likely businesses will continue to encourage the practice long after Covid-19 is no longer an issue. As such we really should be wary of businesses that remain focused on servicing big city office culture, and instead look for businesses that already, or can pivot towards supporting a working from home culture. Listed Property companies which are invested heavily in offices are the obvious loser, but also areas like restaurant chains, gyms and pubs are likely to have premises that are no longer viable, so at the very least will face the costs of finding better locations. Tech companies that have allowed easy remote calling have soared since the crisis, but also those companies that can increase the comfort of working from home, through affordable office furniture and accessories, should also see a sustained uptick in business

Global Equities – In Focus

We are making a change

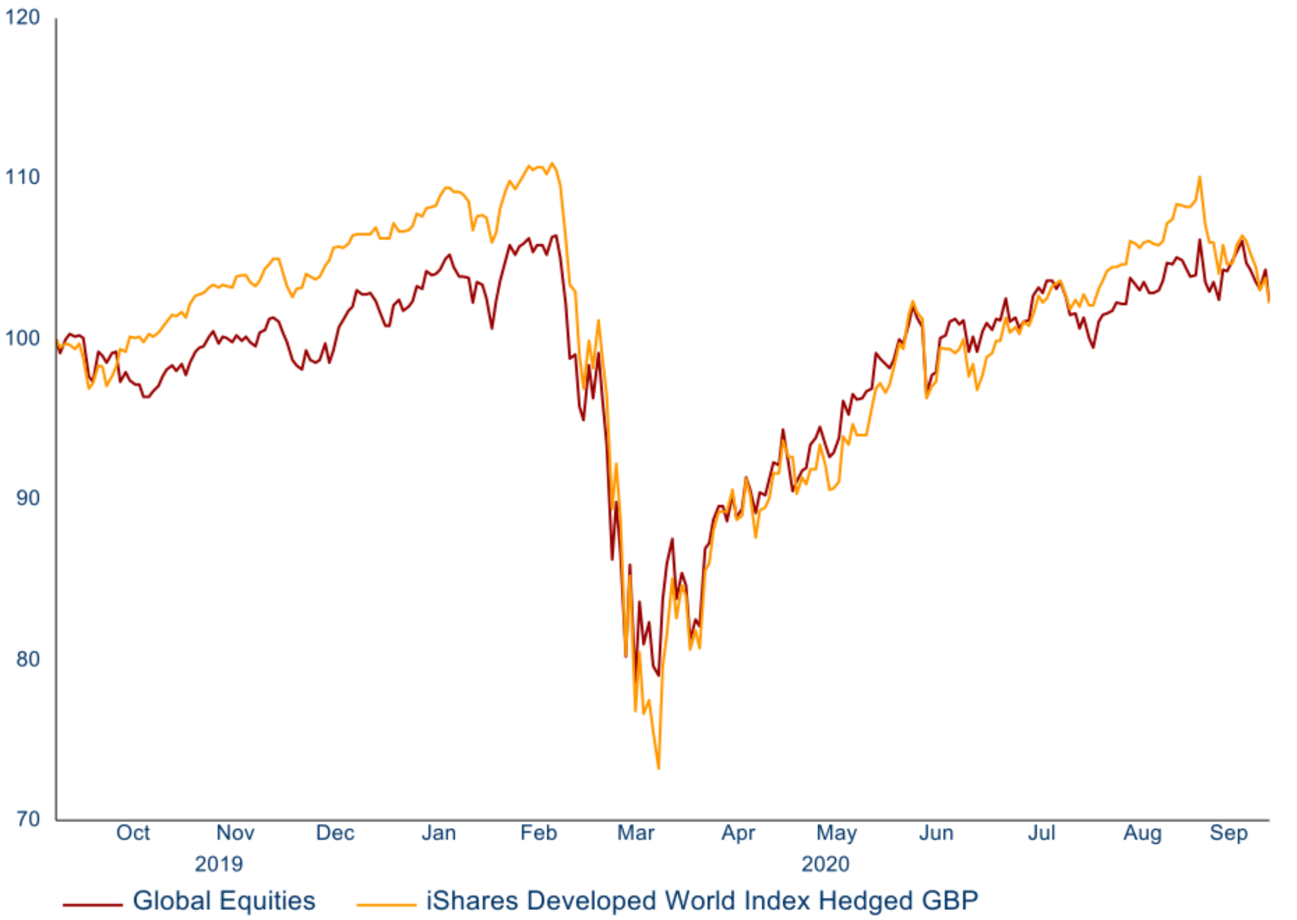
Previously we allocated Global equities by region, even when using hedged share-classes. However now we are adding a passive Global equity fund which is hedged back to Sterling.

Why the change?

The addition of a hedged share-class is due to concerns that, despite the hard-line rhetoric in negotiations, some sort of agreement may be made between the UK and the EU which sees Sterling rally. We have decided to use a passive index in order to continue to reduce the fund costs in portfolios, something we have reduced significantly over recent years.

Our approach

We will use iShares Developed World Index Hedged GBP, which as its name suggests tracks the returns of Developed World equities but with returns on a local basis rather than on a Sterling basis. As such any movement in Sterling will not positively or negatively affect the returns for investors, instead only the returns of the stocks in the index will matter.



Source: Refinitiv Datastream

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