Investment Update

November 2020

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Summary:

- As Coronavirus begins to fade and with a new US President in situ, we are entering a new economic cycle which will gather pace in 2021.

- The global economy is set to recover quickly with a positive future in prospect. The post Covid world will have some differences to what went before and is not "risk free".

- Ongoing global financial repression coupled with a "Green New Deal" makes the combination of dynamic asset allocation and robust risk controls essential attributes for portfolio growth.

2020 has been a testing time for us all and will be a year we will all be glad to see the back of. For investors, a real roller coaster ride from beginning to end – although for clients holding Alpha Beta portfolios for the duration, a creditable outcome from one of the most tumultuous years on record. Despite a deep plunge in global stock markets early in the first quarter, not one of the Alpha Beta portfolios breached their prescribed volatility parameters and have delivered a robust recovery as we approach Christmas.

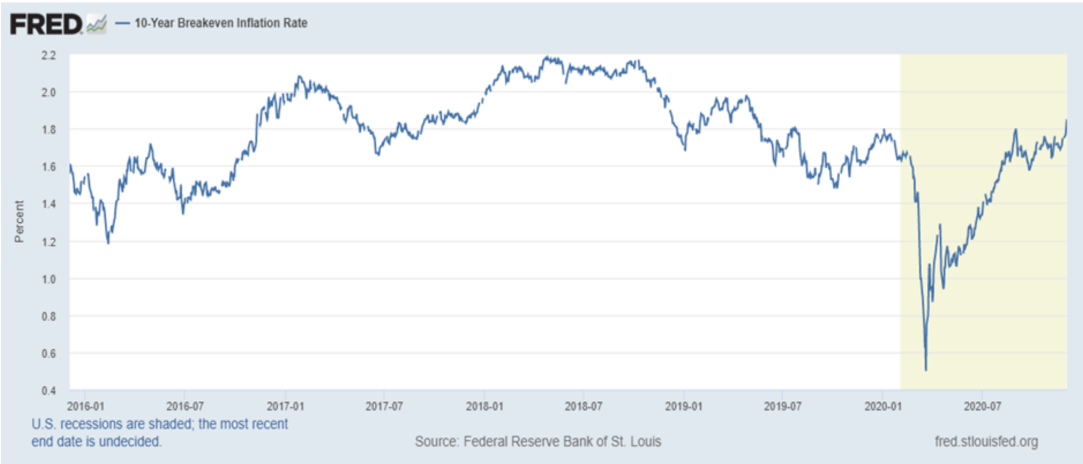
The impact of the Coronavirus pandemic on global economies has been quite breath taking and has been well reported in previous updates. The scale of the fightback led by global central banks and spearheaded by the Federal Reserve has also been on a quite gargantuan scale. Central bank interventions arrested stock markets collapsing further and stimulated a rebound in share prices. A credit crunch was also averted as liquidity was pumped in to ensure the inter-bank market continued to operate. Many larger businesses were rescued as their corporate bonds were bought by central banks, but many small and medium size enterprises have and will fail. Perversely perhaps, some businesses have thrived in the Covid-19 environment and many of these firms are set fair for the future. It is undeniable that many aspects of life on the other side of the pandemic will be different. Many structural changes already in play before Coronavirus impacted our lives have been fast-forwarded. Markets look forwards and have seized upon positive implications as they look ahead of the gloomy real economy of today, believing our climb out of recession will be relatively speedy and the economic environment beyond that point will be one where growth can thrive.

As forecast the US election proved to be a difficult process. Despite cries of foul play by the seemingly out-going President Trump it would appear the result will return a Democrat President and a strongly Republican Senate. This is a result which markets, could they have designed one, would have identified as a near perfect outcome. An in-bound President with a small majority and an aggressive spending agenda, one which seeks to rebuild much of the older domestic infrastructure, instigate a "Green New Deal", level-up social injustice and be a peacemaker internationally. This expansionist approach counterbalanced by a Senate which is motivated to control excessive spending and likely to veto proposals beyond what is justifiable.

Once global markets could identify the likely shape of the election outcome, they responded favourably with strong upward momentum which kept many investors in upbeat mood. The UK stock market saw a strong rebound with the FTSE 100 showing its best monthly returns ever, at around +14% pushed-on by most welcome news on the Coronavirus vaccines. Some of the more value-oriented stocks, for so long over-looked showed sparkling returns. As I write this article the S&P500 is registering new highs and the10-year Treasury yield stands at just 0.92%. Copper the leading indicator commodity saw prices hit a 14-year high and the gold price resumed its journey north.

Short term, we do see equity valuations as being stretched, particularly in the US, and in the absence of short-term central bank liquidity there is scope for a temporary slide-back in prices. In our view this pull-back, if it comes, should be seized as a buying opportunity.

With ongoing liquidity and Modern Monetary Theory being used to fuel infrastructure spending and other capital projects we do envisage the US dollar continuing its decline. This is of course helpful to equity investors, particularly in Emerging Markets where we will aim to capture upside returns. Whilst short term inflation is not excessive, we forecast that medium to longer term inflation will move upwards. Evidence proving this forecast correct was published in November with 5-year inflation in Europe and the US moving notably upwards. Our earlier decision to sell long-dated Treasuries proved timely.



Term	5 Year	Country/Region	US	Type	Nominal Bond v Inflation Bond
Period	Now	Pricing Status	Actives		
		Largest Breakevens			
		1) US Breakeven 5 Year		1.84	

Term	5 Year	Country/Region	Europe	Type	Nominal Bond v Inflation Bond
Period	Now	Pricing Status	Actives		
		Largest Breakevens			
		1) UK Breakeven 5 Year		3.03	
		2) Sweden Breakeven 5 Year		1.15	
		3) Germany Breakeven 5 Year		0.71	

(Source: Bloomberg)

We have taken the opportunity to increase our exposure to UK as valuations are attractive. Based upon a supportive Brexit deal we could be persuaded to do more.

As we enter a new era, we find the prospects exciting and potentially rewarding for investors. An era of ongoing financial repression in prospect will leave investors thinking about increasing the proportion of risk assets in their portfolios. We are inclined to strategically increase exposure to certain unstoppable trends, to identify opportunities for speedy recovery from businesses scarred by Covid-19 trading restrictions. In our opinion, the future prospect for pleasing returns from the Alpha Beta range of portfolios is attractive over the medium to longer term. Now could be a good entry point.

We would like to thank you all for your support during 2020. If you have questions or feedback, as ever, please get in touch – we enjoy talking with you. We wish you and your loved ones a merry Christmas and a prosperous and very healthy new year.

Written by the Alpha Beta Investment Team.

Contact: Andrew Thompson. Tel: 07968 934127

Email: at@alphabetapartners.co.uk

Alpha Beta Partners Ltd.
4 Lombard Street, London EC3V 9AA
info@alphabetapartners.co.uk I 020 8059 0250

Alpha Beta
PARTNERS

www.alphabetapartners.co.uk

www.alphabetapartners.co.uk