Alpha Beta
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Investment Update

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North Korea alleges no incidence of Coronavirus within its borders, China has posted data showing a strong V shaped economic recovery from the impacts of the virus. On the other hand, Europe has been severely hit with Spain amongst the worst economically affected. The UK suffering from an uncertain Brexit has delivered a generous package of measures to support the economy and will no doubt take some time for a full recovery. The United States, despite high numbers of Covid-19 cases has proven the strength and depth of its economic might as the number of companies posting improving data has rebounded.

The fast approaching US Presidential election takes centre stage, but whoever takes up residence in the White House early in 2021 will benefit from the strong economic recovery currently gathering momentum. We should not lose sight of human hardship as many firms have been closed with new economic realities dawning within a few short months, but jobless numbers plunged last week with “new economy” leaders such as Amazon hoovering up 100,000 new recruits at a time across the Union.

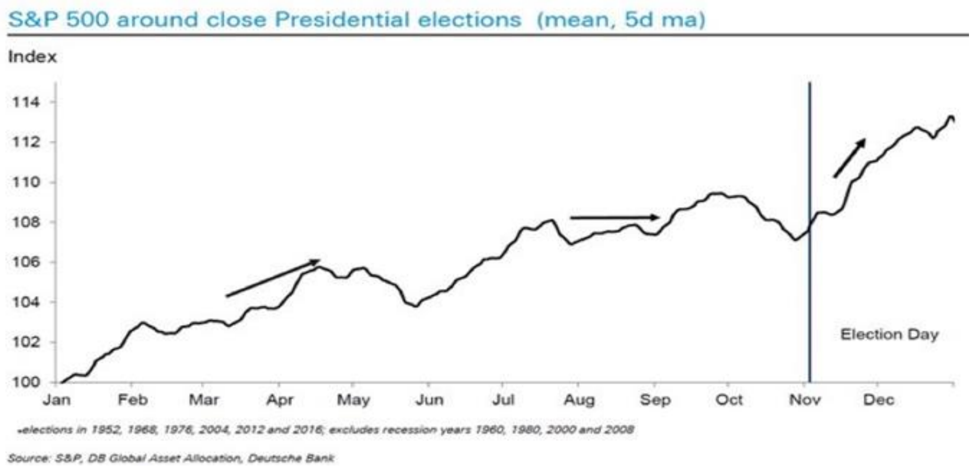
We await US GDP data for the third quarter but would expect results to show the United States output to be around the same level as when Covid-19 first took hold. September retail sales are equal or marginally higher than the same month in 2019. The service sector remains somewhat subdued of course and we expect to see a strong rebound here too when restrictions permit. Business adaptation to home working and a digital workplace has surprised many. Demand for motor cars remains robust and the housing market has enjoyed positive ongoing momentum – all despite Coronavirus and growth in daily infections. One day last week saw over 1 million passengers pass through US airports, the first time since lockdowns began. The public seem to be adapting to life with Covid and this is encouraging for a resumption to relative normality in due course. If there is an issue within the buoyant sectors presently, it is one of supply. This may increase prices over time. With a steepening at the long end of the Treasury yield curve [more of which later] the US banking sector is well placed to see an improvement too.

The chart shows how growth companies have outperformed value companies since 2008.

The oil price has stabilised, and we envisage the commodity trading between $40-50 a barrel, a level which is broadly positive for the industry and not punitive to economies. Copper, another leading indicator has largely recovered and as demand grows from China and domestic infrastructure projects, we become more confident. Gold is enjoying a rerating, driven higher by the possible implications of global central banks and the ongoing supply of liquidity. Commercial real estate markets have seemingly bifurcated where traditional and once loved sectors such as city centre offices and obviously retail shopping centres have been heavily downgraded, but also where modern distribution centres, hubs and modern shared workspaces are enjoying a positive rerating.

Joe Biden would appear to be the odds-on favourite to win the US Presidential election and according to the Wall Street Journal could win the contest, do nothing, and still inherit a strong recovery in 2021-22. Whilst the opinion polls and momentum certainly favour a "blue wave" with the Democrats winning a relative landslide, it is likely to be a select number of States which make the difference – Florida towards the top of the list. The depth of support for Mr Trump as an a-political doer amongst "the silent many" should not be discounted. Mr Trump promises more of the same, which economically is likely to reassure markets. By contrast the Democrats and Joe Biden promise tax increases (corporate and personal), a reversal of Trump instigated deregulation and a significant "Green New Deal" programme supported by tax revenues and significant stimulus packages. According to commentators in the Congressional Budget Office, Joe Biden has learned from 2008 that significant levels of quantitative easing and well directed economic stimuli are the routes to regenerating an economy. It would appear whoever resides at 1600 Pennsylvania Avenue the path for more stimulus and a policy embracing Modern Monetary Theory is near certain. In turn, and over time, this should be supportive and positive for risk assets.

The chart shows typical historic stock performance around a US election.



Over the last few days equity markets have exhibited heightened volatility, much in line with what is expected around the event risk on the 4th of Nov. Investors behave cautiously around the risk events, this leads to lower trading volume and increased volatility. However, the post-election implied volatility term structure points to a much calmer trading environment and the expectation that there is going to be a sizeable fiscal support regardless of which candidate wins. The long end of the US Treasury yield curve has elevated in recent weeks with yields hitting a 4-month high. This was caused by the potential for some downstream inflation due to more and more stimulus, and onshoring policies could see wage growth. At portfolio level, we sold down our allocation of long duration Treasuries in part, replacing them with medium dated high-quality corporate bonds. This move has proven timely and beneficial so far. Likewise, we added marginally to our gold allocation which has also benefitted investors in recent times. The UK market has suffered a dreadful year, FTSE All Share index down 31% or thereabouts driven by Covid-19 of course, an uncertain Brexit and a lack of larger technology leaders.

At these levels and with a Brexit resolution of some sort in the offing, there is some recovery scope and relative to other developed economies the UK looks outstanding value. Chinese equities have rebounded incredibly since the depth of Covid-19 pandemic. The markets have started normalising along with the economic activity. This further adds to our view that once the near term risk events pass, we should expect a strong recovery in economic and market terms across the developed markets. As ever, we remain alert to risk and opportunity.

If you have feedback or questions, we would be delighted to hear from you. Thank you for your ongoing support

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