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Fund Managers Report
Third Quarter

Fund Managers Report 30th June 2020 to 30th September 2020.

Given the continued economic uncertainty in the global economy, volatility continued to prevail in the third quarter. In Sterling terms, global equities have made low single digit positive returns with the main exception being the UK, which was negative low single digits. Meanwhile, fixed income has barely moved.

It is notable that returns for the year since September 2019 show a clear difference in performance between mainstream markets, ESG and Impact investments. In fact, the move has correlated well to the spectrum of capital, with mild out performance for mainstream ESG which increases for the higher impact equity investments.

This reflects something we have seen in the wider equity markets, here a very small number of very large mega cap companies (known as the FAANGs) have driven the equity markets higher, leaving the rest of the market behind. For this reason the US equity market has significantly outperformed Europe and Asia, in fact US equities are higher than they were at the start of 2020, and in the last quarter they continued to rally higher, whereas Europe stood still.

As we enter the last quarter of 2020 three key events will drive market sentiment and direction: how the virus behaves over the winter; the US presidential election and finally how the Brexit process concludes.

With the first issue, attention will be more on how the world adapts and moves on rather than the virus per se. The US election is close and the voting college system is not clear cut. Whilst the result should be binomial there are concerns that a close call will lead to drawn out legal wrangling again, as it did in 2000. With Brexit it was always going to the eleventh hour which has finally arrived. Markets hate uncertainty and a great deal of bad news is still priced in to all three scenarios, which in turn has forced investors into a limited number of crowded but genuine growth areas and away from the general economy. How things pan out on the political stage over the coming weeks will determine whether investors stay put or rebalance into a more general market.

Although ESG and Impact have performed better, we have seen winners and losers and the future value of these investments will be determined by events this quarter. As government stimulus is being directed towards more environmental projects we have seen strong gains in renewable energy investments focussed on growth, environmental infrastructure such as smart metering, electric busses, hydrogen and other fuel cell technologies. Away from government we have seen strong growth in alternative food (vegan burgers), as well organic food and materials. The march of the electric car and energy storage also continues to play out, as well as the Internet of Things and the cloud as how and where we work continues to change and evolve. Whilst 5G connectivity will be an underlying driver in Industry 4.0.

On the other side, public transport, services for building and social housing have suffered. Although renewable energy infrastructure has done well, the owners of wind farms and solar parks have been impacted by lower electricity prices (although we note this has now recovered).

Outlook

Whilst no one likes the status quo, no one is sure of the future. Brexit and the US election will come to a head, and although we cannot even hazard a guess at the outcome, we know there will be winners and losers and these events will need to be taken in their stride. From the US elections, matters such as global trade, taxation of large technology and global geo-political relations will be determined.

Brexit, which has dogged the UK sentiment and Sterling in particular for over four years is of less relevance as much of the portfolio is either global or entirely domestic, where EU trade plays a limited role.

The pandemic, or more precisely, how the world handles it, is more relevant in the short term. Our anticipation is that the market will become more broad based as needs will drive changes forward. The pandemic will just determine how quickly this happens. Although longer term issues such as the deficit and interest rates will need to be addressed, we see this as a long way off from the current horizon.