Investment Committee Rebalance Update

January 2021

General Overview

The vaccine rollout has buoyed markets, with the expectation that pent up demand will accelerate global growth later in the year, whilst the new Biden administration lends weight to the reflation trade. However there still remains a lot of concerns in the near term. The ability to supply vaccines, and the efficacy against the new strains of the virus continue to grab the headlines, whilst the recent lockdowns in places like Europe will push the recovery further down the road, and potentially inflict deeper long-term scars on the economy.

Questions continue to mount over the expectations that are priced in, and particularly the amount of retail money pushing the stock pick selections of 'investor clubs' to eye watering valuations.

As we know, the recovery has diverged on a country and sector level. We also have a divergence on an individual level too, and divides in society are likely to continue to grow. There will be a difference between those people that have managed to keep their jobs and work through the pandemic, and those that have sadly found themselves as a statistic in the unemployment data. Global PMI's appear to have peaked and have started to rollover, although they find themselves back to pre-crisis levels.

As investors we must always look forward, so whilst the more recent negative headlines will act as a delay in the recovery, we still think the rebound will be strong when it comes, with savings ratios a good indication of the dry powder waiting to be unleashed, although as you will find, we are more bullish on certain countries with regards to the timing and strength of this rebound.

USA

President Biden wasted no time in dismantling Trumps' legacy, signing a plethora of executive orders in his first few days in office, such as halting the construction of the border wall with Mexico. He also took aim on a number of climate related orders, such as re-joining the Paris Climate Agreement, or removing permits for the Keystone oil and gas pipeline. There are of course a number of other pressing issues that Biden will need to tackle, with the more immediate need to stimulate the economy a major priority. We do expect a hard push for as much stimulus as possible. Janet Yellen, who becomes the first female Secretary of State, is advocating for lawmakers to 'act big' on stimulus, although the colossal package Biden initially suggested will likely be watered down to gain approval. But nonetheless, cheques through the mail to consumers will drive demand.

During early January we had quarterly updates from the US Banks, which on the whole were better than expected. Throughout 2020, they had put aside huge amounts of capital, which turned out to be too much, so some will now start to return money to shareholders after being given the green light. It wasn't all rosy though, with some forward-looking statements highlighting worries about the consumer in the second half of the year, and defaults may begin to rise.

The US banks will want to see the stimulus packages go through, but beyond this there is one eye on potentially tighter regulation and more progressive policy, however this may not be topic for discussion until 2022 when hopefully the virus is in the rear-view mirror.

Biden has made it a priority to focus on the vaccination, and more places such as pharmacies will come on line to administer the drug, as well as places such as sports stadiums or theme parks. They will also begin to broaden out those who are eligible in order to increase the uptake. The race to herd immunity will be key, and we feel a bigger push for this under the Biden administration, as well as tougher rules on things like face masks, will set the US on a better course than the previous administration.

UK

We remain optimistic on the UK, more so than our last report. The uncertainty around Brexit has dissipated somewhat. There are the obvious 'teething' problems at the borders and issues surrounding the relationship between financial services, but the cliff edge moment of leaving with no deal in place has been avoided. I think more importantly for the domestic UK economy, is the lead they have taken in the vaccination race. Latest figures show around 12% of the population has received at least one dose, with only Israel and the UAE ahead. Looking at other major regions, Europe currently stands at sub 3%, and they continue to squabble amongst themselves with regards to access to vaccination doses.

This leads us to think that if the UK continues at its current pace, it will be closer to herd immunity, whilst other nations lag behind. Which bodes well for domestic consumption, as we could see a spring and summer flutter of UK based activity, with popular European destinations still off limits.

With regards to UK listed companies, we do think the they offer a number of M&A opportunities, with valuations still depressed versus other nations, and arguably the pound still on the cheap side.

One of the key events coming up will be the Chancellor's budget in the first few days of March. This could well have tax implications as they try and regain some lost ground, although it's widely not expected to hit the average man or women on the street, but potentially areas such as capital gains tax.

EU

Again, the Brexit issue has gone away, but now they must focus on its own internal issues – Italian politics, a slow vaccine rollout and disruption in the auto industry are a couple of points that grab the headlines. The bloc has been fortunate in that China has come out of the crisis in a better position than most, which has aided some of Europe's industries. Although you now look to the rise in the euro and what implications this will have on exports, but also inflation.

The prolonged lockdowns in many countries will continue to weigh on service sectors in the coming months, and the bloc will likely see a number of bankruptcies this this area in the year ahead, as activity fails to pick up as quickly as expected due to a lack of co-ordination in the vaccine rollout.

Monetary support remains highly accommodative in the region, but as we have seen since the financial crisis, it has failed to pick up inflation, and recent comments that a rate cut is on the cards have done little to spur hope as further easing is likely to have limited impact.

Whilst some way off, we will have German elections in September this year, which always brings some element of uncertainty due to the fragmented number of parties and the coalition government that is inevitably formed.

ROW

We continue to see better than expected growth figures from the Far East as the machines and industries are pushing ahead as if nothing happened, especially in China. Imports of iron ore are likely to break all records, with Rio Tinto increasing shipments to China to meet this booming demand. The Communist Party of China have recently rapped the knuckles of some of the country's billionaires, reminding them that no-one is bigger than the Country/Party. We have also heard that the “green” infrastructure movement is really gathering pace, so this will bring China into a more positive light (still a long way to go). We do like Asia, and a favour a tilt in this direction, including India, as they begin the huge rollout of the COVID vaccine.

Global Interest Rates

As mentioned previously we do not see Central Banks raising rates in the near term. They are happy to let inflation run above target (when it reappears). The discussion re inflation was mixed, some saying its welcomed and wanted by many of the Central banks and it is on the horizon but others saying that any appearance will be short-lived with wage inflation likely to not appear at all as the job market tries to cure itself.

Asset Allocation

Whilst we have rebalanced the portfolios, there has been extremely limited changes in our top-level asset allocation. We remain underweight on fixed income, and have simply rebalanced our allocation here back to weight. We remain positive on infrastructure for its lower correlation to equities, but also if we are to see some inflation, many of their underlying contracts are linked to some measure (RPI/CPI etc), so this will provide some uplift. Whilst equities look toppy in many places, we do not want to be underweight. We have tried to shift underlying exposure to more cyclical stocks, which will benefit from a bounce back later this year.

Please contact us for individual portfolio changes.

Company Information

King & Shaxson Asset Management Limited (Reg. No. 3870667) has its registered office at 1st floor, Cutlers Court, 115 Houndsditch, London, EC3A 7BR. The Company is registered in England and Wales and is part of the PhillipCapital Group. King & Shaxson Asset Management Limited (FCA Reg. No. 823315) is authorised and regulated by the Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN.