Vintage Asset Management – MPS update first quarter 2020

Market background

The new year in 2020 has seen a lively start following the progress markets made in 2019, which ended with a broadly positive final quarter. Investors responded to the easing of the tension over tariff wars and to a decisive election result in the UK as well as to better economic data and reassuring company results. In equity markets the FTSE 100 rose 1.8% in the fourth quarter which took the index from 7,408 to 7,542 and made for a gain for the year of 12.1%; the FTSE 250 Index of mid-sized companies and the FTSE SmallCap Index were boosted by the 'Boris bounce'. In the US the S&P 500 index gained 8.5% in the quarter to make a return for 2019 of 28.9%, one of the better years since its inception in 1873. In Europe the EURO STOXX 50 rose by 4.9% over the three months to December to make a return of 24.8%. In Japan the Nikkei 225 continued to rally with an increase of 8.7% in the quarter that made for a return of 18.2% for the year. The MSCI Emerging Markets index in US$ also did well with a gain of 11.4% in the quarter, which boosted the return for the year to 15.4%. The total return from the FTSE UK Gilts All-Stocks Index was -3.9% in the fourth quarter as ten-year yields moved from 0.49% at the end of September to 0.82% at the end of the year, a period which they had started at 1.28% and for which the index return was still decent at 6.4%. Sterling was notably stronger in the fourth quarter when it gained 7.9% against the US$ to close at a rate of $1.33:£ while against the euro it was up 4.9% to €1.18:£. The price of Brent oil rose by 11% in the last quarter of 2019 to $66 per barrel, which was a quarter higher over the year. The price of gold gained a further 3% in the period to close at $1517 per troy ounce, helped by central bank purchases, and it was up by 18.3% over the year.

The outlook looks to be predicated on interest rates that stay low for longer, if not for ever; the US Federal Reserve cut interest rates by 25 basis points again, for the third time in the year. The expectation is of reasonable economic growth around the world, a little better than in 2019 if lower than the average in the last decade. The risks of a recession in the US in the near-term have faded, while complicated by the run-up to the presidential election in November and dependent to a degree on there being a sufficient compromise on trade wars. There is an expectation that governments will provide an additional fiscal stimulus, as has been happening in China and Japan and is increasingly the case in the UK.

Asset allocation

At its meeting in January 2020 the investment committee agreed both an adjustment to the longer-term range for asset allocation as well as a tactical adjustment to the current weightings for models. This has involved a small increase in equity exposure and a shift from alternatives. The asset allocation for each mandate and their ranges are now:

Mandate		**Bonds**	**Equities**	**Alternatives**	**Cash**
Cautious	*Range*	*30 - 70%*	*10 - 50%*	*10 - 30%*	*0 - 50%*
	Current	50%	20%	20%	10%
Cautious Balanced	*Range*	*20 - 60%*	*20 - 60%*	*10 - 30%*	*0 - 50%*
	Current	42.5%	35%	17.5%	5%
Balanced	*Range*	*10 - 50%*	*30 - 70%*	*10 - 30%*	*0 - 50%*
	Current	30%	47.5%	17.5%	5%
Balanced Growth	*Range*	*5 - 30%*	*40 - 80%*	*10 - 30%*	*0 - 50%*
	Current	20%	60%	17.5%	2.5%
Growth	*Range*	*0 - 20%*	*50 - 90%*	*10 - 30%*	*0 - 50%*
	Current	10%	70%	17.5%	2.5%

We have increased the equity exposure across all models by between 2.5% and 7.5% specifically into UK equity where there is good relative value, as we believe there to be in Europe and Japan too. We have reduced the weighting to Alternatives by between 2.5% and 5%, given in particular some stretched valuations in infrastructure assets. We also increased the allocation to Bonds by 2.5% for the Cautious to Balanced mandates. For now we have opted to reduce the cash position in the Balanced Income, Balanced Growth and Growth mandates. As ever we retain our readiness to hold significant levels of cash if required to afford protection to portfolios.

Portfolio changes

We completed the re-balancing of model portfolios in early February 2020 having deferred it initially to allow for an assessment of the emerging threat from the coronavirus out of China and the closed markets there. The changes in individual positions included the following.

Increases:

HSBC American Index – efficient exposure to the US market

Schroder Tokyo Hedged – increased holding in Cautious and Cautious Balanced portfolios

Baillie Gifford Japanese Income Growth – increased holding in Balanced through to Growth

Sale:

Foresight UK Infrastructure Income – high concentration to Infrastructure and renewables

Purchase:

RM Alternative Income – a more diversified portfolio of infrastructure and other assets

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