VINTAGE
ASSET MANAGEMENT

Vintage Asset Management – MPS update May 2020

Market background

2020 has clearly been an exceptional year already. The first quarter saw a sharp set-back in world equity markets as the coronavirus Covid-19 took an increasing toll on human and economic life, but substantial support from governments and central banks together with an optimistic view on the speed of the recovery has enabled markets to rally sharply from their lows.

Early in the quarter there was still a misplaced hope that Covid-19 would have a similarly limited impact as did the SARS outbreak in 2002-3, as an example, even though China then accounted for only 4% of global GDP compared to 16% in 2019 and that it was then less connected to the world. Stock markets fell sharply in March given the severity of the spread of the virus and the measures taken to contain it, as countries were locked down and economies contracted sharply. Liquidity was a factor and there was an element of distress, while a striking element was the collapse in the oil price, driven by the drastic drop in demand for transportation in particular but compounded by the delay in agreeing adequate production cuts.

The rally in markets since late March has been largely driven by unprecedented moves from central banks and governments to support economies. In the UK the new Chancellor of the Exchequer announced successive measures while the Bank of England cut interest rates twice first to 0.25% and then to their lowest level in history at 0.1%, if unlikely to stimulate demand in the short-term given the supply constraints. There was a similar approach from the US Federal Reserve and the Trump administration agreed a stimulus package of up to $2trn, while the European Central Bank and the Bank of Japan also introduced more radical measures.

The outlook is predicated on the extent the virus can be controlled or contained, the extent of the recovery from the restrictions in place and the continued support of central banks. It will be complicated by the US presidential election in November, by the pressure on international trade and by Brexit too, which is still a consideration for the UK in 2020. The potential weakness in corporate earnings may bring volatility, while dividends have been cut as companies preserve cash.

Asset allocation

At its meeting in April 2020 our investment committee agreed an asset allocation that was broadly similar to that implemented at the interim re-balancing of models in March. We have focussed portfolios on those sectors that should show greater resilience through a protracted economic down-turn and we have retained a cash buffer that we expect to deploy when the risk/reward ratio appears more compelling.

For equity exposure the healthcare and technology sectors remain attractive even if the relative rating of growth assets relative to those with a value bias has been stretched further, given the impact of the crisis on more cyclical businesses. Similarly the likelihood of higher default rates has been behind an orientation in fixed income towards higher quality. Alternative assets should still offer some attractive opportunities.

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	45%	10%	20%	25%
Cautious Balanced	*Range*	*20 - 60%*	*20 - 60%*	*10 - 30%*	*0 - 50%*
	Current	37.5%	22.5%	20%	20%
Balanced	*Range*	*10 - 50%*	*30 - 70%*	*10 - 30%*	*0 - 50%*
	Current	27.5%	37.5%	20%	15%
Balanced Growth	*Range*	*5 - 30%*	*40 - 80%*	*10 - 30%*	*0 - 50%*
	Current	18%	49%	18%	15%
Growth	*Range*	*0 - 20%*	*50 - 90%*	*10 - 30%*	*0 - 50%*
	Current	10%	59%	16%	15%

Portfolio changes

We have modestly reduced the allocation to fixed income, with less in emerging market bonds and higher yielding debt and a higher allocation to government bonds. We have broadly maintained the equity exposure with some changes by country and sector. For alternatives we favoured gold (if through mining shares) and defensive strategies with a lower amount in infrastructure and property.

We made the following changes in the re-balancing of model portfolios in late April:.

Purchases and increased weightings:

Fundsmith – added across all mandates for its focus on quality global growth companies;

BlackRock European Absolute Alpha – for Balanced and Balanced Growth mandates;

AXA Framlington Healthcare – increased in Balanced through to Growth mandates;

Polar Global Technology – increased holding in Cautious Balanced through to Growth; and

JP Morgan Macro Opportunities – increased holding for all but Balanced mandate (at max. 5%).

Sales and reduced weightings:

RM Alternative Income – part of a lower allocation to infrastructure except for income portfolios;

Threadneedle UK Smaller Companies – reducing exposure to more exposed sectors; and

M&G Emerging Market Bonds – potentially vulnerable on exports and lower commodity prices.

Switches:

JPM US Equity Income Hedged to HSBC American Index – preference for larger companies; and

Man GLG Undervalued Assets to Man GLG Income – same team but less cyclical exposure.

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