Cornerstone Quarterly Review
Q2 2020

For authorised intermediaries and professional investors only

LATEST COMMENTARY

After the incredibly unsettled markets in mid-March, Q2 saw a classic recovery from the oversold panic stage. The MSCI All World index rose by 18.85% (USD) and 19.54% (GBP), led by US and Asian markets. The UK market continued to lag, the FTSE all-share rising by 10.17% (all data Aubrey Capital/Bloomberg Data 30/06/2020). Government bond yields fell moderately further, with credit reversing Q1 weakness, the iBoxx UK Corporate bond index rising 9.77% (www.ishares.com).

The speed and depth of government and central bank action in late Q1 supported the financial system and averted a liquidity crisis. This allowed markets, from the early part of April onwards, to start reassessing asset prices in a very uncertain world, but at least one where they could make reasonably rational assumptions. How long economies stay in lockdown and the long-term social and economic affects remain key questions, with the current increase in cases in the United States clearly worrying. On the positive side of the ledger is the way that Asia has been able to cope and recover but even there have been so called second or even third COVID waves. Recent Chinese data has been encouraging and we continue to hope that Europe, initially, and then the United States, can follow a similar path.

The decade since the financial crisis has been very polarised. In many industries, the strong have got (much) stronger whilst weaker companies have struggled. This will continue, as the deeper and sharper the recession, the more pronounced the effect is between the strong and the weak, and this recession is very sharp and very deep. Technology has had a huge effect in both challenging and revolutionising many businesses, removing significant costs and changing the way they interact with their suppliers and customers. Unsurprisingly, we only see the crisis accelerating these trends including moves towards cloud computing/processing, offline to online and the cashless society.

This has meant that whilst the market overall has recovered strongly over the quarter, there has been a huge disparity in returns between growth and income. Many businesses in mature industries, where growth is harder to come by and is more linked to the economy, have struggled, and there have been widespread dividend cuts. These more economically exposed businesses face greater uncertainty as to how long it will take for economies to recover, and this has been reflected in much more muted share price recovery. This does mean that for growth investors, the recovery has been strong, but for those of our clients looking for income it has been a very difficult environment. Investors need to see a sustainable improvement in the global economy in order for the differential in returns between growth and income to narrow.

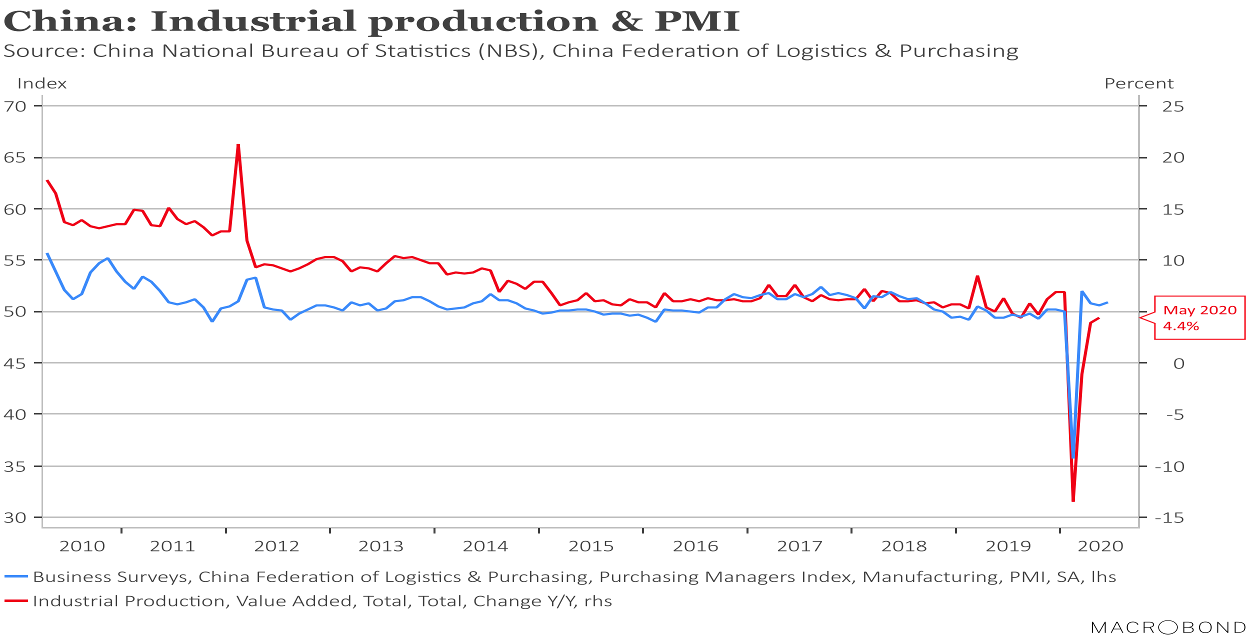
END OF QUARTER ASSET ALLOCATION (%)

	UK Equities	US Equities	Europe (ex UK) Equities	Japanese Equities	Asian Equities	Other Overseas Eq.	Infastructure	Alternative Assets	Bonds	Cash
MAP 1	1	3	1	0	1	1.5	2.5	7.5	45	37.5
MAP 2	2.5	8	2	1	2.5	4	5	12.5	40	22.5
MAP 3	5	18	5.5	3.5	6	7	5	10	27	13
MAP 4	6	22	7.5	4.5	7	8	5	10	24	6
MAP 5	7	28	9.5	5	10	10.5	3	10	13	4
MAP 6	9	34	11	6	12	13	0	10	3	2

Green	Allocation change	> 2% in quarter
Red	Allocation change	< 2% over quarter

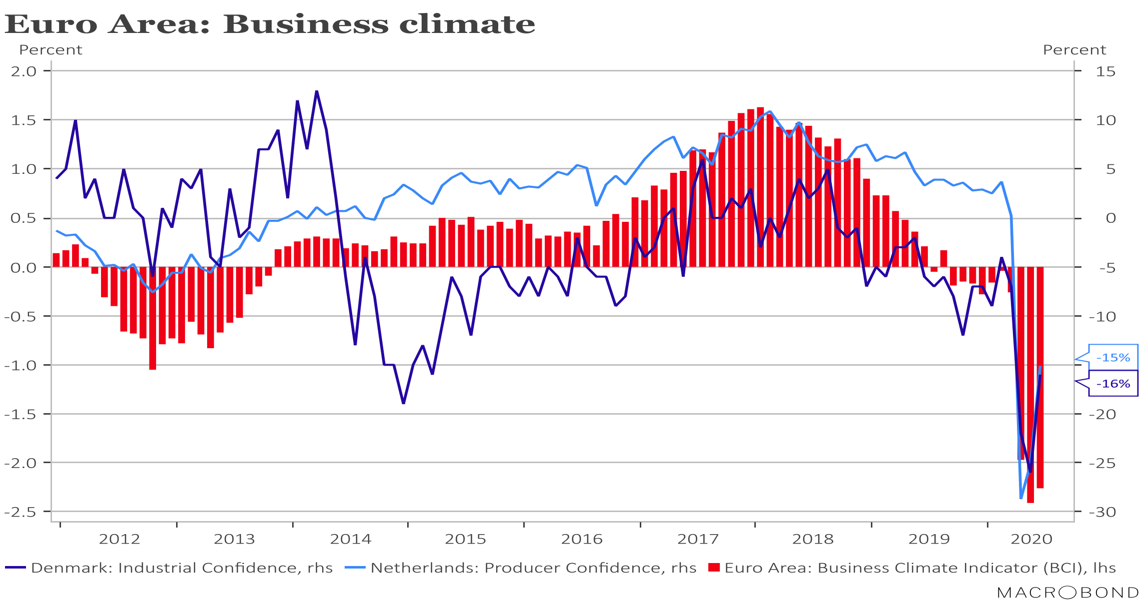
Source: Aubrey Capital Management, 30/06/2020

China continues to lead the recovery; the June services PMI 58.4 (up from 55 in May) was the highest in a decade



Source: Macrobond

Europe is improving as lockdowns ease



Source: Macrobond

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PORTFOLIO PERFORMANCE* (%)

	Quarter	1 Year	Inception	Benchmark Quarter	Benchmark 1 Year	Inception	Benchmark
MAP 1	5.46	2.71	8.22	0.26	1.66	4.71	CPI plus 1%
MAP 2	8.46	3.21	9.66	0.51	2.67	6.80	CPI plus 2%
MAP 3	11.85	3.94	10.97	0.76	3.68	8.90	CPI plus 3%
MAP 4	13.87	4.76	12.23	1.01	4.69	11.03	CPI plus 4%
MAP 5	16.20	5.81	14.03	1.26	5.70	13.18	CPI plus 5%
MAP 6	18.72	7.28	16.13	1.51	6.71	15.34	CPI plus 6%

TOP & BOTTOM PERFORMANCE CONTRIBUTORS* (Q2 2020)

	Top	Bottom
MAP 1	iShares UK Corporate Bond	Liontrust Special Situations
MAP 2	Baillie Gifford American	Invesco Money
MAP 3	Baillie Gifford American	Invesco Money
MAP 4	Baillie Gifford American	Invesco Money
MAP 5	Baillie Gifford American	Invesco Money
MAP 6	Baillie Gifford American	iShares Corporate Bond 0-5yr

*Source: Aubrey Capital Management 30/06/2020

OUTLOOK

An initial V shaped market recovery has taken place and the global economy needs to continue to improve to support this. The summer may see choppy markets as easing lockdowns inevitably generate localised increases in new COVID cases. With ultra-low interest rates, expanding government support packages and increasing money supply, the outlook for the next 18 months does remain positive for both equity and fixed income risk assets. Joe Biden looks likely to win the US Presidential election, a potential headwind for US markets as he is a democrat, a potential tailwind in removing the uncertainty Trumps frequent policy shifts have produced. Increasing odds the UK cannot agree a trade deal with the EU before the year end may keep the lid on what is otherwise a cheap, if value oriented, UK market, though we expect increasing M&A activity will create pockets of opportunity.

IMPORTANT INFORMATION

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