CHARLES STANLEY

Cornerstone Quarterly Review Q3 2020

Cornerstone Asset Management

For authorised intermediaries and professional investors only

LATEST COMMENTARY

The third quarter of the year saw a more restrained market performance after the wild swings between March and June. Bonds were a little weaker as markets dealt with the big issue programmes resulting from the extra borrowing needed to deal with the pandemic crisis. Emerging market equities, led by China and India, outperformed those of the developed world. The latter did however see good performance for shares benefitting from the digital revolution and the changes brought on by the healthcare crisis. Shares in the UK fell, in part reflecting the high weighting in sectors like energy and banks that are not doing well against this background.

Share and bond markets have now regained much of the ground lost in the big pandemic sell off in March, thanks to the strong support offered by the leading Central Banks. The Fed created an additional $3 trillion to support bonds and other financial assets and to help the banking system supply credit to companies short of cashflow. The European Central Bank, the Bank of Japan and the Bank of England also gave plenty of assistance by buying up bonds. Governments too sought to increase public spending and cut taxes to offer help to hard pressed sectors damaged by lock downs and social distancing rules. The impact of these actions spilled over from the second quarter into the third but diminished towards the end of the period when central banks took their feet off the accelerator pedal against the backdrop of unwelcome news on the spread of Covid-19.

With a second wave of the virus affecting many places, in the final quarter markets will seek reassurance of more stimulus and be nervous about further lock downs to counter the pandemic. We think our base case scenario of muddling through and living with the virus remains the most likely and expect more support should declines become more pronounced. The unleashing of pent-up demand and revised working practises have boosted demand in the traded goods sector, a big tail wind for manufacturing, but services remain in the doldrums as hospitality, travel and leisure continue to bear the brunt of virus-related restrictions. The concern is that, once the pent-up demand in the goods sector begins to ease, the strong rebound in economic activity witnessed since May will begin to wane.

END OF QUARTER ASSET ALLOCATION (%)

	UK Equities	US Equities	Europe (ex UK) Equities	Japanese Equities	Asian Equities	Other Overseas Eq.	UK Property	Global Property	Alternatives	Bonds	Cash
Passive Growth 1	3.0	8.2	1.6	0.0	0.8	0.0	0.0	0.0	0.0	81.9	4.5
Passive Growth 2	3.8	14.6	1.7	2.0	2.5	4.3	2.0	1.0	0.0	64.6	3.5
Passive Growth 3	3.9	20.2	2.7	3.4	2.9	13.8	2.0	1.9	0.0	45.0	4.1
Passive Growth 4	3.7	27.4	4.1	5.0	3.2	17.8	2.6	2.1	0.0	30.9	3.3
Passive Growth 5	4.2	33.0	5.1	6.3	5.4	21.2	2.7	2.5	0.0	17.1	2.5
Passive Growth 6	4.8	34.7	5.7	7.0	8.5	25.2	3.0	2.2	0.0	6.4	2.5
Passive Income 3	9.9	21.1	2.7	0.0	4.7	6.4	0.0	4.1	0.0	49.6	1.5

Source: Charles Stanley, APX - 30 September 2020

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

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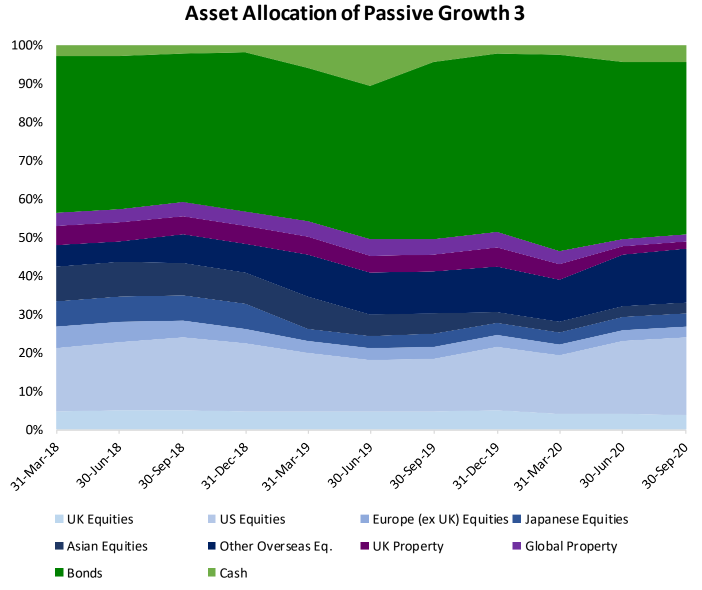
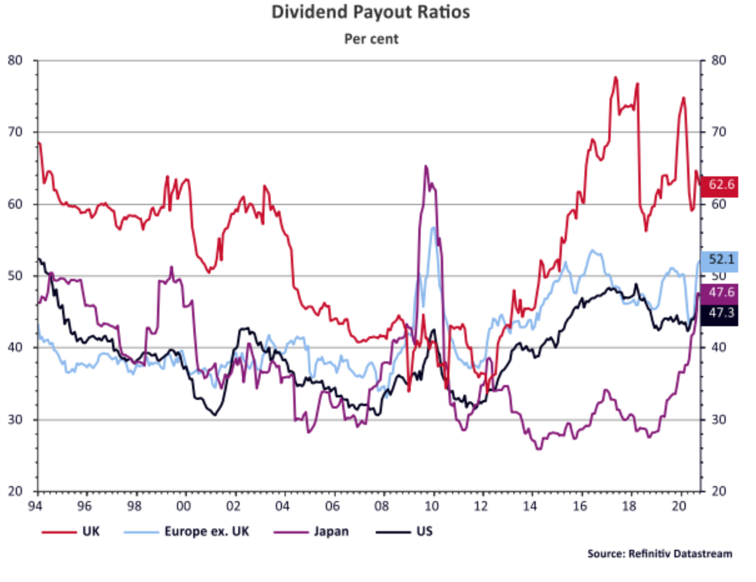


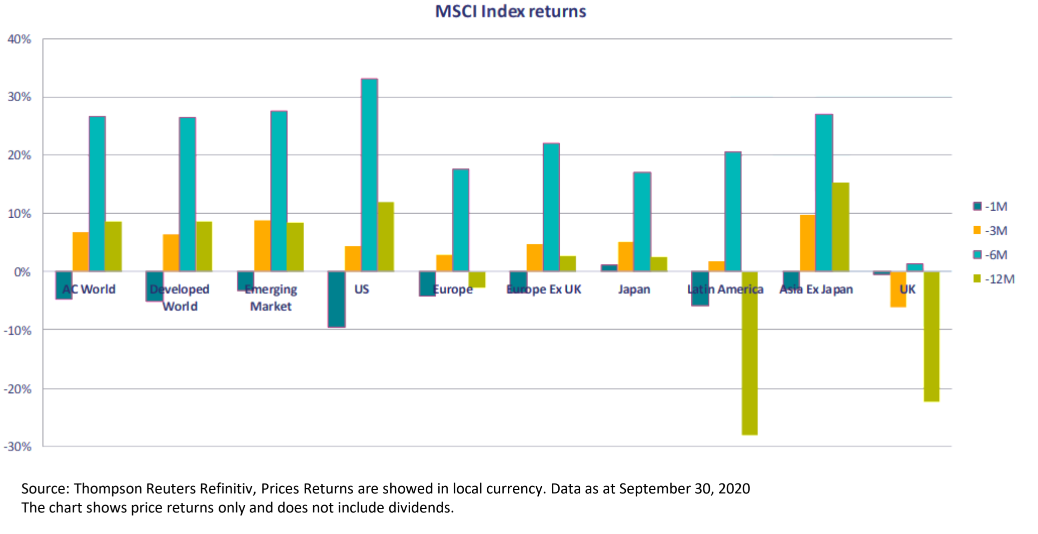
Over the quarter, our main change was to increase our exposure to Inflation Linked securities in response to the vast amount of monetary policy stimulus provided by Central Banks.

September was a contractionary month for global equities due in part to easing support from Central Banks and negative news flow surrounding COVID-19. Despite this, equity indices were positive on the whole for the quarter, continuing the recovery trend since March lows.

Income investments have continued to struggle as businesses take a cautious stance against COVID-19 disruptions.

This uncertainty has lead to many companies cutting their dividends.





Over the last quarter, Asian Equities outperformed, lead by strong returns in China which has optically made more progress restoring lost output than Developed Market peers.

Source: Thompson Reuters Refinitiv, Prices Returns are showed in local currency. Data as at September 30, 2020
The chart shows price returns only and does not include dividends.

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MODEL PERFORMANCE (%)

	Quarter	1 Year	5 Years	Benchmark Quarter	Benchmark 1 Year	Benchmark 5 Years	Benchmark
Passive Growth 1	0.5	-0.4	17.4	0.7	1.6	14.4	CPI PLUS 1%
Passive Growth 2	1.8	0.3	23.4	1.0	2.6	20.2	CPI PLUS 2%
Passive Growth 3	2.9	3.1	36.4	1.2	3.6	26.2	CPI PLUS 3%
Passive Growth 4	4.1	5.1	47.2	1.5	4.6	32.5	CPI PLUS 4%
Passive Growth 5	5.0	6.5	57.4	1.7	5.6	39.0	CPI PLUS 5%
Passive Growth 6	5.6	7.6	61.5	1.9	6.6	45.7	CPI PLUS 6%
Passive Income 3	-0.1	-6.5	28.6	1.2	3.6	26.2	CPI PLUS 3%

TOP & BOTTOM PERFORMANCE CONTRIBUTORS (Q3 2020)

	Top	Bottom
Passive Growth 1	Fidelity US Quality Income UCITS ETF	iShares Asia Pacific Select Dividend ETF
Passive Growth 2	XTRACKERS S&P 500 UCITS ETF	VANGUARD FUNDS PLC FTSE 100 UCITS ETF
Passive Growth 3	INVESCO EQQQ NASDAQ-100 UCITS ETF	VANGUARD FUNDS PLC FTSE 100 UCITS ETF
Passive Growth 4	iShares Global Clean Energy	VANGUARD FUNDS PLC FTSE 100 UCITS ETF
Passive Growth 5	iShares Global Clean Energy	VANGUARD FUNDS PLC FTSE 100 UCITS ETF
Passive Growth 6	iShares Global Clean Energy	VANGUARD FUNDS PLC FTSE 100 UCITS ETF
Passive Income 3	Vanguard S&P 500 ETF	ISHARES V PLC EM DIVIDEND UCITS ETF GBP

Past performance is not indicative of future performance. The value of investments may fall as well as rise and the income from them may fluctuate and is not guaranteed. Investors may not recover the amount invested. Source: Internal APX as at 30/09/2020

OUTLOOK

The US election also looms in November, where the choice before voters represents very different ways of managing the economy. A Biden Presidency will be more emollient with allies and international bodies but will want to impose big tax rises on corporate America with his proposal to increase the corporate tax rate by 7% to 28%. Biden or Trump winning, but under a split congress, is likely to see fiscal gridlock with more onus on the Fed to do the heavy lifting from a policy perspective.

IMPORTANT INFORMATION

The value of investments, and the income derived from them, can fall as well as rise and may be affected by exchange rate variations. Investors may get back less than invested. Past performance is not a reliable guide to future returns.
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