...Saltus

Cornerstone
Asset Management

Market update

October brought with it the first major wobble in risk sentiment for many months, as investor nerves frayed ahead of multiple important, but difficult to forecast, events. Although the looming US presidential election and Brexit negotiations had their impact, there was in reality little 'new' news on either topic for investors to digest. The real hit to sentiment and prices came once again from COVID-19, as markets slowly accepted that additional damaging lockdown restrictions were inevitable if the virus was to be brought under control ahead of winter. Western economies, where momentum had already begun to wane in September, now faced a more serious challenge which, combined with the high degree of political uncertainty, led markets to retreat steadily throughout the month.

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The major pockets of weakness were felt in developed equity markets as they fell between -3% to -5% from recent highs. Those parts of the world which are having a 'better' Covid experience, such as Japan and Asia, performed much better than the UK, US and Europe, as did the corporate credit market, which is still enjoying massive central bank support. The gold price was marginally down on the month and similar moves were seen in the oil market, as it moved to price in the lower demand that lockdowns would inevitably bring with them. There was little appetite for buying into equity market weakness, but then again, the selling pressure wasn't particularly heavy either.

What happens next?

Heading into the last two months of an extraordinary year we are now very close to knowing the outcomes of multiple key events – with Brexit, US elections and a coronavirus vaccine prospects all set to come to a head before year end. That reduction in uncertainty is usually enough in itself to put markets on a firmer footing, but given the very real possibility of negative outcomes (e.g. vaccine delay) there is little incentive to position portfolios aggressively in anticipation of any one particular outcome. In the short term, markets and investors are in 'wait and see' mode.

Whilst political events undoubtedly generate a large number of headlines, we do think that the delivery of a Covid vaccine will turn out to be the most important event of all from a market perspective. We can already see from the broad Asian market just how positively markets respond when economic activity is able to return to mething close to normal. Although we have no particular insight to any of the vaccine programmes, we can note that the most recent news is positive and that the chances of an effective vaccine arriving early next year are rising. That would obviously be good news on multiple levels and would open the way for some heavily punished assets (e.g. UK equities) to bounce back from depressed levels

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Another major factor that is acting to underpin sentiment in uncertain times is the willingness of governments and central banks to intervene (i.e. spend) in massive size to support economies through the epidemic. This is most evident in the bond and credit markets, where corporations are able to fund themselves in record amounts, backstopped by central bank buying programmes. Similarly, furlough schemes and related policy actions are filling some of the gaps for under pressure consumers. This combined approach is set to continue for the long term and to a large extent is independent of near term events described above, giving anyone with a longer term perspective (such as your Investment Committee) the confidence to hunt for opportunities now, however noisy the headlines may be.

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Portfolio performance

Portfolios delivered between. +0.1% and -1.6% depending on risk mandate, with the higher risk portfolios falling more. The losses were concentrated principally in developed market equity exposures in the US with the gains coming almost exclusively from Asia and Japan (although there were also resilient performances from small company equity holdings). Bond managers across the credit spectrum had another positive month, underpinned as mentioned above, by central bank intervention in their markets. Convertible bond managers also delivered solid gains, whilst there was little impact from movements in other asset classes.

David Cooke
On behalf of the Saltus Investment Committee, November 2020