Discretionary Portfolio Service

Quarterly Review Q2 2020

Fundamental

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For the 1st quarter of 2020, Fundamental Bespoke portfolios were up, on average, 14%, although there was some variance depending on holdings and size of portfolio.

After the Covid-19 pandemic sparked a sharp sell-off in global equity markets at the start of the year, markets have rebounded strongly in the second quarter.

The UK main market was up c9% but that paled into insignificance as the US S&P500 was up almost 20%

The lifting in lockdown measures combined with considerable policy support worldwide have led to a robust rally in global equities.

As we enter the third quarter, there should be a bounce in activity with the easing of lockdown restrictions, albeit to a lesser extent than may have been anticipated, however a W-shape recovery or 'double-dip' recession is the greatest concern.

We believe that markets may have got slightly ahead of themselves in terms of the extent of the recovery. With the risk of a second wave of the virus and unemployment on a sharp rise, the outlook certainly doesn't look rosy. Governments, including the UK and France, have intimated that they will try to avoid national lockdowns in future due to the impact it has on the economy but with Covid-19 restrictions in place, there are certainly barriers to free spending for many.

The reduction in interest rates to almost zero is likely to be a major factor behind the surge in the equity markets because despite dividends being slashed across the board, it is still offering a more attractive place to park cash and generate some yield than leaving it in the bank.

What has become increasingly evident over recent years is the lack of attractive growth available to those investing on the main UK stock market. It is for this reason that many investors (large and small) are increasingly drawn to AIM, which offers plenty of growth opportunities in sectors not found on the main market. Software and video gaming companies having been proving their worth over lockdown, yet the main UK market has limited exposure to the former and no exposure to the latter.

Banks and insurance groups have seen their share prices battered over recent months but AIM has few of these companies, although some business operating in the financial services sector have experienced difficulties.

There has been no shortage of financial support from shareholders with a large number of equity raisings. While fund raisings from main market companies appear to primarily address a need to shore up significantly weakened balance sheets, many on AIM have been to support growth opportunities as rivals struggle.

Exposure to AIM has certainly helped the portfolios to outperform the main UK equity indices and notwithstanding the general stock market concerns, we remain steadfastly focused on assessing the merits of individual companies, many of which have proven themselves over this unprecedented period.

While some smaller companies have seen their activities shut down entirely, strong balance sheets, ample cash reserves, and drastic cost cutting measures, combined with generous government and shareholder support, means the majority we assess are in decent financial shape and well prepared for whatever the future may throw up.

The biggest winners in the quarter from the blue chip holdings were **Next,** up c20% and **Easyjet** up c19% but that is hardly surprising considering the declines they suffered in the first quarter. However, these are still well below the likes of AIM listed **RWS Holdings**, up over 30% and **Fevertree Drinks** up 70% as well as a number of other AIM companies that are held across the portfolios.

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