Discretionary Portfolio Service

Quarterly Review Q4 2020

Fundamental

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Market review and Outlook

Fundamental general portfolios were up on average 9.8% for the final quarter of the year. Despite the current precarious state we are all living in, equity markets reacted positively to vaccine news and a last ditch deal being signed with the EU, albeit there are huge chunks of the UK economy still to be negotiated, namely financial services.

Many of us will be happy to see the back of 2020. It has been a year that I am sure all of us would not like to repeat. The situation in the US and the behaviour of what must be the most vilified outgoing President in US history (although 70 million people still voted for him) as well as the UK finally leaving the EU (with a deal) would normally be the dominant news of the year. These headlines are however likely be lost amongst the awful pandemic.

At the beginning, we anticipated and hoped for this to be a short and isolated incident. We could never have imagined just at what scale it would ultimately grow to.

Some good things have emerged from this, thanks mainly to scientific, social and technical innovation as we have all had to adapt. However, the scientists who no doubt worked tirelessly to create, test and ultimately roll out the vaccines are truly remarkable.

Markets have been encouraged by the hope that the vaccine brings an end to the pandemic and the significant economic impact that accompanies it.

After suffering the most severe recession since WWII, resulting in the worst quarterly GDP numbers on record in the second quarter of 2020, economic growth surged in the third quarter. As it rebounded from such a low base, the UK subsequently recorded the best quarterly GDP numbers on record. However, despite this strong surge, economic activity has only partially recovered from the collapse and remains far below the trend, reflecting the dominance of the service sector to the UK economy.

The second wave of Covid-19 currently enveloping the northern hemisphere is clearly decimating the service sector again, with growth likely slowing to a very low single-digit pace in early 2021. Hopefully, if the vaccination programme proves successful, growth could recover rapidly, due to both pent-up demand and supply in those sectors which have been most impacted by the pandemic.

Stock markets generally reflect what is going to happen, rather than what is currently happening, therefore given the optimism following the vaccine roll-out, global equity markets finished 2020 where they started, and in some cases reached all-time highs.

The AIM market was actually 20% higher in the year, being the standout performer.

However, these remarkable recoveries mean that many valuations are well above historical averages. Earnings are likely to continue to recover in the year ahead which should lead to these valuations levelling out to more comfortable levels. Furthermore, a continuation of relatively low interest, even negative, rates likely justifies some elevation of valuation measures above their historical averages.

Big winners in the quarter came from those most likely to benefit from a successful vaccine. The travel and leisure sector saw big share price increases for the likes of portfolio holdings **Easyjet** and **WH Smith** given their exposure to airports.

ITV plc benefitted from a rotation into value stocks after they had suffered dramatic falls earlier in the year.

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