SARASIN MODELS

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ECONOMIC AND FUND REVIEW

COVID-19 infections were resurgent in Europe and the US during October, with the number of daily new cases exceeding levels seen earlier in the year. Lockdowns were gradually re-imposed over the month with Germany, France, Spain and the UK suggesting stricter national lockdowns from November. Government bonds generally fell on the prospect of a large fiscal stimulus package and possible return of inflation in the US and other developed markets. Equity markets were also down on the month, experiencing their worst week since March in the last week as virus concerns mounted. Overall, a worsening virus trajectory and prospects of an uncertain US presidential election led to increased volatility over the month.

Against this backdrop, Emerging Markets were strong performers over the month. Your portfolios holding in Vontobel MTX Sustainable Emerging Markets Leaders was up c. 1.4% over the month in Sterling terms.

By contrast, European Equities (including the UK) lagged over the month as financial markets digested the worsening virus data, reversing earlier gains. Legal & General European Index Fund was down c.6.7% for the month.

There were no outright sales or purchases during the month, but there were mergers of a number of Sarasin Thematic Sterling Hedged Funds. These fund mergers should not impact the performance of the fund and should lead to efficiencies over time.

OUTLOOK

Whilst social distancing strategies are tightening across Europe a return to full lockdown seems unlikely, economic and market conditions will not return to how they were before: international trade flows and supply chains have been permanently disrupted in places; balance sheets have been damaged, requiring gradual repair or rights issues; many dividends will not return to previous levels and share buybacks have been reduced.

In the longer term, technology disruption will accelerate; consumer attitudes will be very cautious; collectively, governments will be less able to stimulate recovery than after the financial crisis; weaker economic growth will leave some companies struggling to grow sales and profits; investors will be more aware, and cautious, of social and environmental 'negative externalities' and poor corporate governance; affected shares will trade on lower valuations. For all these reasons, it is a time to remain vigilant and not to be complacent. Our focus will remain on investments that can generate secure and growing cashflows over the long term.

In the immediate term, any positive economic momentum and supportive fiscal spending will provide an impulse to corporate earnings. Monetary spending (e.g. QE) and interest rates at the zero bound will allow refinancing opportunities for companies to invest at more affordable levels. In addition, there are numerous opportunities driven by the shift to a more digital world, in new automation, climate change mitigation and adaptation, demographic trends and by shifts in consumption patterns in both the emerging and the developed markets. These themes can surpass the broad measures of GDP growth and the challenges triggered by the coronavirus.

Whilst the recent setbacks are unwelcome, corrections can provide opportunities for long-term investors and we will be looking for the opportunity to add to high conviction holdings over the coming weeks and months.

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Important Information

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