



## Investment Oversight Committee Update – November 2020

### Global Markets Between Meetings

The October IOC update seems like a long time ago. There has been a shopping list of activity since then. The biggest impact to us socially, has been the UK returning to lockdown. Markets had little to no reaction to this news. France and Germany also slipped back into lockdown during the month.

Seemingly a lifetime ago, the US went to the polls and elected Joe Biden to take the reins from Donald Trump early next year. As at the time of writing, Trump has yet to concede and continues to argue the outcome through various courts. Prior to the election the markets did sell off, but even with the result uncertain for a number of days, we saw a strong rally in global markets post polling day.

Most importantly, there seems to be 3 or 4 vaccines showing promising results being engineered and rolled out in record time. At Smith & Pinching, many of us started working from home for a “three week” period in late March. The positive vaccine news means that realistically we could all be back working from the office next year and, hopefully a return to normalcy across the globe. The roll-out will not be instantaneous and will target higher risk demographics initially. There are also many logistical hurdles to overcome, but we appear to be seeing light at the end of the tunnel. Following the announcement of the Pfizer and BioNTech vaccine we saw a strong rally in markets, further supported by the Moderna announcement a few days later. Between the October and November IOC meetings we saw the FTSE 100 return 9.41%, although if you look from the pre-election sell off to the date of the November meeting this is some 15.37%. Similarly, the S&P 500 is now 8.91% higher than pre-election.

### November IOC Views

	--	-	Neutral	+	++
Asset Allocation	Cash	Direct Property (Removed Nov 20)	Bonds UK Equity Property Equities	Overseas Equity Specialist*	
Equity Region		US Europe		Asia Japan India Emerging Markets	
Style			Large Cap Mid Cap Small Cap	Growth Value Income	
Themes		Sterling	Overseas Currencies Financials	Technology Healthcare Infrastructure	
Fixed Income Styles		G7 Government Bonds High Yield	Investment Grade	Subordinated Debt Emerging Market Debt	

## Changes to IOC Views

**Asset Allocation:** Removed Direct Property. This has become an asset class we feel that we can no longer invest in. Whilst it offers diversification benefits, we felt that the external shocks which caused fund suspensions and the potential FCA reactions could leave us with a vehicle which is unusable within model portfolios. Once the BMO UK Property fund suspension is lifted, we will look to sell for all clients who held this in their model portfolios.

**Equity Region:** No change. The IOC committee discussed upgrading US to “Neutral”. We have seen rising markets (not in and of themselves a reason to upgrade something) we have also seen a number of companies meeting and beating expectations as well as one of the great unknowns, the US election, has now been removed from the equation. On reflection we felt that from a top down view, we see that some areas are trading at high multiples so maintained the “.” view. We still have investments in the US, both through exposure in global funds as well as some direct US funds, but we remain underweight in this area.

**Style:** No change. Still clustered at “Neutral”. As we stated in the September update, over the long-term Value Style *always* outperforms Growth Style, but the period of underperformance has persisted for many years. Within the UK around one third of our equity is Value, but this is much less on a global basis. We will continue to keep a close eye on both the performance of Value as a style as well as our managers within that group. In the last month this more neutral stance has paid off as we have seen a strong Value rally, catching up some of the underperformance it has experienced vs Growth. It would have been very easy to just look at performance and switch from an underperforming Value style fund into a strongly performing Growth style fund just before this reversion rally.

**Themes:** No change. We see a positive outlook for Insurance with good demand and regulatory fears dissipating. This area was out of favour because of these concerns, however we still have concerns around other parts of ‘Financials’, namely banks, as we see the low rate environment continuing for an extended period of time. We therefore remain “Neutral” across the Financials theme.

**Fixed Income Styles:** No change. We have seen short term volatility in Government bonds. We also still feel that you are not being rewarded for the risks taken in High Yield therefore, no change. We look to remain flexible in this area, holding strategic bonds which can invest across the various themes. We also have direct exposure to emerging market debt as a good diversifier offering high levels of income.

## Changes to Model Portfolio Assets

No changes have been made to the model portfolios following this meeting. We expect the BMO UK Property fund to lift its suspension around the time of our next meeting, so we will likely reinstate this into the models (it is currently ring-fenced to allow model management to proceed unencumbered) and then remove this from the models at this stage, rather than wait for the quarter end rebalance. That change will be confirmed in the next IOC update.

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IOC Meeting dates 2<sup>nd</sup> November and 16<sup>th</sup> November 2020. The information and commentary contained in this document is based on views as at 19<sup>th</sup> October 2020 and may be subject to change.