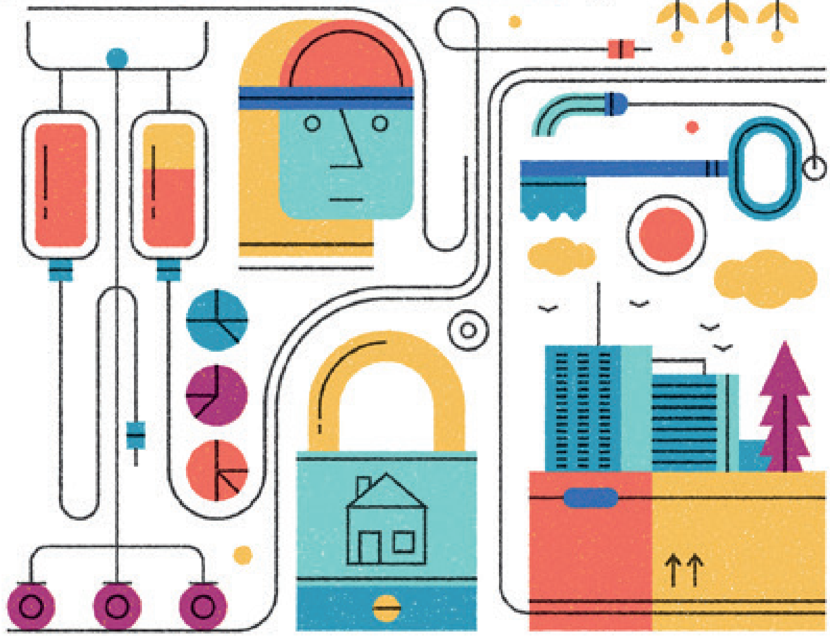
Investment Insights

Issue 25 — Third quarter 2020

The healing process

How quickly will the world recover from the coronavirus pandemic?



In brief

More sustainable dividends
There may be a silver lining to the cloud hanging over income

Diversifiers provide an antidote
Alternative strategies can help to protect portfolios in times of crisis

Biden his time
US voters could swerve to the left in this year's presidential election

Investing in a crisis
An active approach to passive investing during uncertain times

Rathbones
Look forward

Foreword

The global economy is reopening for business as the COVID-19 virus recedes, and the groundwork has been laid for a speedy recovery by massive government and central bank stimulus. Markets have rallied strongly as investors look forward to better days ahead. It's often difficult to work out what's happening in the middle of a crisis, and we don't know what will return to normal and what will have changed forever.

In our first article on page 3, we explore the outlook for financial markets and the global economy over the coming months. Stock markets are nearly back at the record highs seen at the start of 2020 as investors stay optimistic about the post-pandemic recovery. Yet it's important to bear in mind the risks that lie ahead and the best ways to protect your portfolio in the face of ongoing uncertainty.

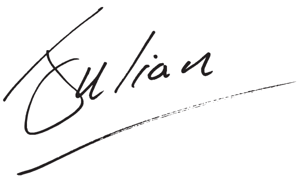
As the world entered lockdown and the global economy closed for business, many companies decided to suspend dividend payments. On page 5, we examine what this means for the UK market, which is uniquely focused on dividend income. We also discuss how the crisis could be an opportunity for companies to adjust their strategies and offer more sustainable and attractive long-term growth and income in the future.

Absolute return strategies are often criticised for underperformance relative to broader equity markets. On page 6 we explain why this is a flawed approach and explore how to assess the performance of actively managed diversifiers. We outline the different types of strategy and examine their role in multi-asset portfolios, as well as the conditions where they might perform well.

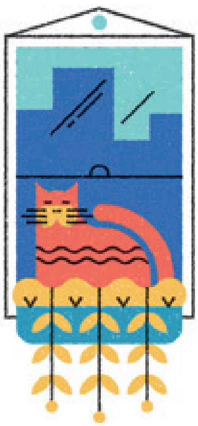
With the US presidential election fast approaching, we take a look at who's leading in the polls on page 8. We examine the possibility of Joe Biden claiming victory in November, and what his policies — including higher corporation tax, higher minimum wages and more regulation — could mean for investors.

During the coronavirus crisis, demand among European investors for exchange-traded funds — the passive, index-tracking cousins of actively managed funds - held strong. Our final article on page 9 explores whether a cheaper, passive option would have been a wise choice over active management during the uncertainty experienced in recent months.

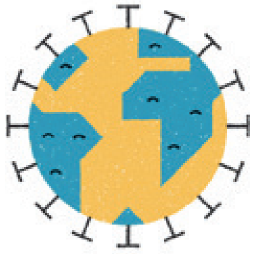
I hope you and your family remain healthy and safe. I'd also like to reassure you that we're doing everything we can at Rathbones to keep track of what remains a rapidly evolving investment environment. Please visit rathbones.com to find out more about our latest views.



Julian Chillingworth
Chief Investment Officer



How quickly will the world recover from the coronavirus pandemic?



The global economy is waking up from its medically induced coma as lockdown measures to combat the spread of COVID-19 are eased. With high levels of unemployment, ongoing social distancing measures and the risk of a second wave, what will economic activity look like over the coming months?

What may seem surprising is that by the end of June global stock markets were almost back to the record highs seen at the beginning of 2020. In an environment of such uncertainty about the long-term economic effects of coronavirus, as well as risks posed by US–China trade tensions and the US presidential elections, are investors being overly optimistic?

It's important to remember that equity markets typically anticipate turning points in the economy by three to six months. If this recession only lasts two months (March and April), then the recent moves in stock markets make sense. But we don't know that for sure – there could be a second wave of COVID-19, or the economic healing process could be slow and stuttering.

We don't think it's likely to be as smooth as the equity markets seem to be anticipating. It's important for investors to remain grounded by the probabilities – by what we don't know – and we would put the chances of such a rapid 'V-shaped' recovery at 50:50. So we think it makes sense to protect portfolios against the risk of another leg down, even though it's not a certainty.

Though new cases continue to decline in the developed world, they have started to rise exponentially in emerging countries (especially India and Brazil). Major economies are too globally integrated for a full recovery to occur without a meaningful abatement in the virus, and the restrictions to activity that it has brought on, across all countries.

Markets have also been supported by the extraordinary stimulus from central banks and governments, which has been impressive in its speed, scale and scope. This is important because the greatest historical failures to recover from a major economic shock were characterised by a lack of such action; for example in the Great Depression of the late 1920s and Japan's prolonged deflationary bust that began in the early 1990s.

Assessing the damage

Yet the stimulus can only do so much, and it's likely that second-quarter UK GDP will contract by the most since at least 1946. We estimate that the UK economy contracted by 25% in March and April.

Where we go from here is subject to huge uncertainty. In our most optimistic scenario, we don't expect the level of output seen in February 2020 to return until September 2021. If there's a second wave and just one more month of lockdown, much of the economy's lost output could become permanent.

The good news is that coronaviruses appear to be less susceptible to second or third waves compared with influenza outbreaks, because coronaviruses mutate to a lesser extent. Yet even without a second wave, it may take some time for business to spring back. The IMF estimates that the UK economy will contract by 10% in 2020, more than advanced economies in aggregate, before rebounding by about 6% next year (figure 1).

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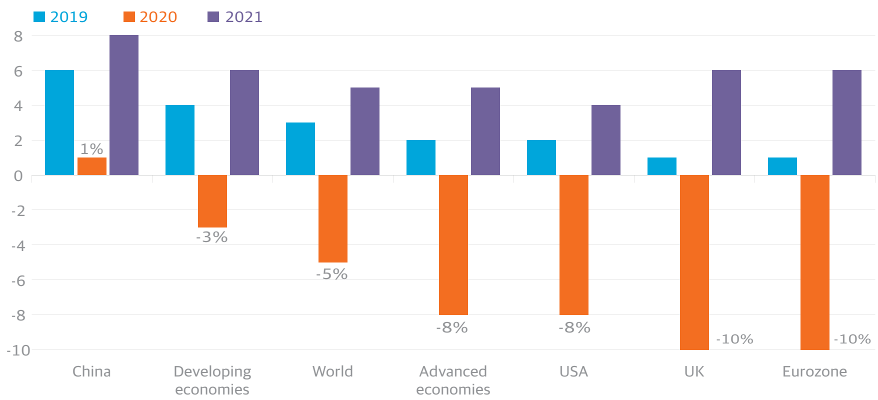
Figure 1: The outlook for economic growth

GDP forecasts are looking gloomy for this year but economists expect growth to pick up swiftly and become positive again in 2021 (%).



Source: IMF, Refinitiv and Rathbones.

However, the IMF highlights some downside risks to this scenario, which as noted above we only think has a 50:50 chance of coming to fruition. Yet even in a pessimistic scenario, it seems unlikely that recession would continue for 19 months, as it did in the US between 2007 and 2009 amid the global financial crisis.

The Bank of England (BoE) and Office for Budget Responsibility, the Treasury watchdog, have released some of the gloomiest forecasts. They believe unemployment will stay much higher for longer, and households will save a much higher proportion of income and profits than normal. We're not convinced such bearishness is warranted, but we agree that the economy is unlikely to be derailed by high inflation, which would cause authorities to rein in stimulus.

Taking stock of the risks

Inflation is only a risk if there's a V-shaped recovery, and even then it's far from certain. The history of pandemics suggests they affect demand for goods and services more than they affect the ability to supply them. Less demand relative to supply is disinflationary.

Most advanced economies have struggled to get inflation above the 2% inflation target over the last decade despite printing more money. That's because a large increase in the supply of money doesn't necessarily lead to inflation – there could be other obstacles affecting how quickly the money is spent. For example, firms may need to repay the debts they've incurred during this period.

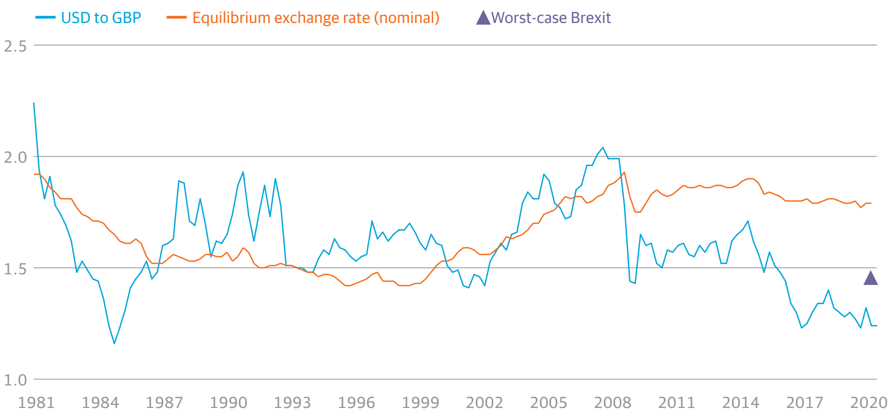
The other big risk to the economic outlook is that unemployment will stay higher for longer. UK unemployment data is published with a lag, but we know from the data on universal credit and other benefits claims that the headline unemployment rate is likely to be around 8%. While the furlough scheme has helped curb unemployment, there's a chance that firms may have no choice but to dismiss staff when the support schemes are withdrawn.

The US government has taken a different approach – focussing on replacing income lost temporarily through layoffs instead of trying to preserve jobs, while putting in place incentives for firms to re-employ staff in the second half of the year. The US unemployment rate is much higher, already reaching 15%, but excluding those members of the workforce registering as 'temporarily laid off' would take it closer to 3%.

Risk is not a certainty. We think investors should remain broadly invested with defensives in place to guard against uncertainty. Equity valuations fell a long way, but they've risen a long way too. We believe there are still returns to be made over the long run and it's important to remember that markets rarely stay down for long, even in years with huge drawdowns, such as 1976, 1987 or 1998.

Figure 2: Sterling is a cyclical currency, but already undervalued

Sterling remains undervalued against the US dollar, and Brexit uncertainty remains a headwind.



Source: Refinitiv and Rathbones.

Has COVID-19 claimed sterling?

There were brief signs that sterling might enjoy a lasting rally after a decisive election victory gave Prime Minister Boris Johnson a mandate to "get Brexit done." However, COVID-19 seems to have killed it off. Will sterling ever recover? That's one of the most frequent questions our clients ask us.

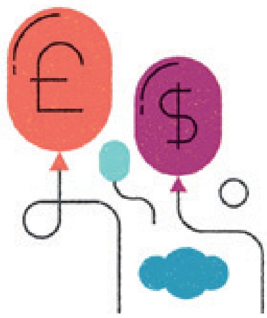
It's important to remember that the pound is a very cyclical currency. When investor sentiment is riding high, sterling tends to appreciate against the dollar or the euro. When people feel gloomy about the world, the pound tends to weaken. However, that relationship determines how the exchange rate varies around its long-term trend, which, in turn, is determined by the health of the UK economy.

Measuring value

Figure 2 shows the number of dollars a pound buys versus a long-term equilibrium value – the value implied by the relative rate of productivity, inflation and savings in the UK and US. Currently, the pound appears very undervalued. Yet even before COVID-19 struck we were pessimistic about the UK's potential to grow and prosper, particularly if there is a no-deal Brexit.

Is there a risk the UK's economic performance will become so much worse that sterling's exchange rate would actually seem overvalued relative to an adjusted equilibrium value? Our analysis suggests the risk isn't significant, given how cheap the pound is today.

There is more scope for the pound to appreciate over the longer term than there is for it to fall. Sterling fell just 11% against the dollar at the worst of the market turbulence in March 2020, compared to the 35% peak-to-trough fall we saw in 2008. This performance adds to the evidence that the pound might be near its long-term bottom and not likely to fall much further from here.



There may be a silver lining to the cloud hanging over income

For the first time in modern history, the world has experienced a synchronised shutdown of the majority of economic activity and the enforced quarantine of almost entire populations. This situation has created an unprecedented dilemma for companies, with large numbers of them withdrawing completely from providing any estimate of their future sales and profits.

Ordinarily maintaining dividends would be a priority for management teams, but we are in extraordinary circumstances. Even companies with hitherto conservative and appropriate levels of financial gearing have faced difficulty in these exceptional economic circumstances. This is leading them to reassess dividends, which are usually considered a measure of a company's strength, prestige and dependability, nowhere more so than in the UK. In this environment management teams have been erring on the side of caution and suspending dividend payments.

Seeking total returns

The UK market is uniquely focused on dividend income, which has contributed significantly to total returns. In the US, for example, there is a much greater focus on returning capital to shareholders through share repurchases as well as dividends. The UK market has also relied on a handful of large dividend payers, with the top five representing 34% of total dividend payments in 2019, and the top 15 representing 64%.

Many of these companies are in sectors with relatively little structural growth, like oil, mining and banking. Those three sectors are all cyclical, or sensitive to economic cycles, so the broader economic outlook will be critical in determining their future dividend policies.

Dividends for the FTSE All Share are expected to fall 34% from 2019 levels, according to analysts' consensus (figure 3), which would put the current yield at 3.5% . While we think UK dividends will fall more than this, the yield will still be attractive compared with other asset classes and other equity markets. Provided we don't see a significant second COVID wave and renewed lockdowns, we think many companies that have suspended dividend payments will resume them later in 2020 or in 2021, albeit in many cases at reduced levels. Consensus estimates are that dividends will rebound by 23% in 2021 to yield 4.3%.

Papering over the cracks

In many cases, favoured UK income stocks across different sectors had high initial dividend yields but little prospect of dividend growth. Many of them raised cheap debt to paper over the cracks in cash flows, creating an unsustainable path that contorted their balance sheets and curtailed their ability to reinvest in their businesses. Few companies felt they could cut their payouts without causing an unwanted fall in their share prices.

For better long-term income and returns, we strongly believe that dividend growth potential is more important than the absolute level of current yields. How businesses allocate their capital ultimately determines the level of their future profits and also whether those profits can be sustained. The cash returned to shareholders should be the by-product of prudent, sustainable investment in a business. It shouldn't be the overarching aim.

There is a possible silver lining to this pandemic. So much has happened that was out of companies' control. Yet, ironically, this could give companies more control in the future. It could be a perfect excuse for companies to reset their strategies, their investment plans and their dividends in order to offer more sustainable and attractive long-term growth and income.

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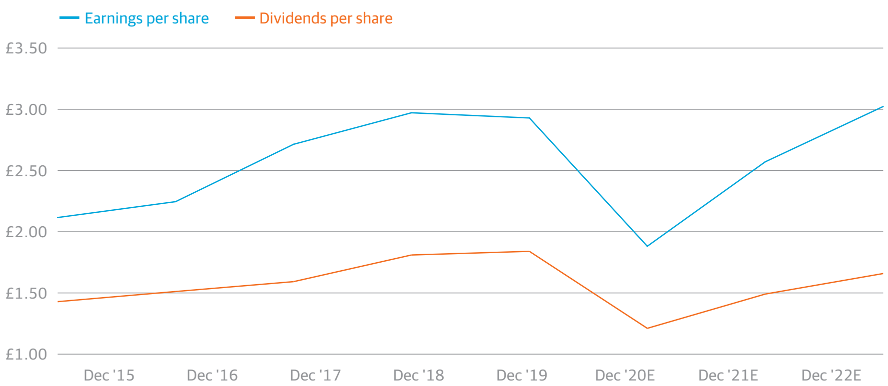
Figure 3: FTSE All Share earnings and dividends per share

Dividends for the index are expected to fall by more than a third in 2020, but overall UK yields should remain attractive compared with other asset classes and equity markets.



Source: FactSet and Rathbones.

Alternative strategies can help to protect portfolios in times of crisis

Absolute return strategies, named for their purpose of providing a source of positive returns over the whole market cycle, have suffered negative press for some time. These funds, which we call actively managed diversifiers, have been criticised for underperformance relative to broader equity markets.

But the comparison itself is deeply flawed because these strategies are not aiming to outperform equity markets, nor should we expect them to. The whole idea of diversifiers is to provide sources of return that have a low, or even negative, correlation to equities. Measured correctly, we think these diversifying strategies have delivered through the recent turbulence and over the longer term. So how should we measure these strategies, and where and when is it appropriate to use diversifiers?

Dispelling diversification myths

According to traditional portfolio construction, investments are split across lower risk investments, such as cash and bonds, and riskier investments that have greater return potential such as equities. Weightings of each are determined by the investor's appetite for risk, their tolerance for losses, and the market cycle.

A traditional diversified portfolio would typically have a strategic allocation of 60% in equities and 40% in bonds. The proportions could be adjusted as appropriate at different stages of the market cycle. For example, equities could be increased during recovery phases and reduced in a downturn. The aim was to enhance the risk-adjusted returns of the portfolio.

However, this approach was challenged by Harry Markowitz's Nobel-prize winning work in the 1950s. A key insight was that holding different assets that are not positively correlated (i.e. don't move in the same direction) will reduce the volatility of the portfolio. Intuitively this makes sense: if different assets are correlated, and therefore rise or fall together, they won't provide the benefits of diversification that investors seek in times of market stress. To put it another way, there's no use putting your eggs in different baskets if all the baskets are tied together; if one falls they all fall.

More recent studies have shown that correlation between asset classes tends to increase during periods of market stress, as they did when COVID-19 started spreading across the world. This was also the experience of the global financial crisis, when corporate bonds came crashing down along with equities.

We divide assets into three building blocks, which play different roles – liquidity (mostly safe-haven government bonds and cash), equity-type (such as shares, corporate bonds and emerging market debt) and diversifiers. This third category comprises assets that demonstrate a low or negative correlation to equities, particularly during periods of market stress.

Using this 'LED' framework, portfolio diversification is built on risk protection, rather than relative and potential returns, and particularly on how different asset classes, instruments and funds behave at points of market stress. This helps us better understand the potential for losses at the overall portfolio level.

Assessing performance

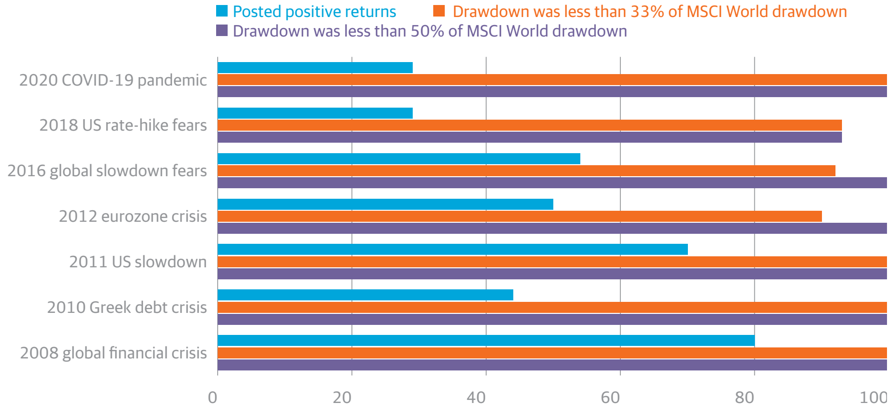
It is important to have some way of appraising performance, and in particular investors need to assess whether these actively managed strategies have smoothed returns within portfolios and provided protection during difficult periods in equity markets. Our research suggests they have, both historically and, in particular, during the recent panic selling as the coronavirus spread around the world, bringing economic activity virtually to a standstill.

In this latest crisis, equity markets experienced their fastest-ever drop into bear-market territory (defined as a fall from the previous peak of 20% or more). At the height of the panic in late March, even the safest of assets, like government bonds and gold, were falling as investors were desperate for cash and selling everything.

Figure 4 shows periods of drawdowns (falls from the previous peak) for the MSCI World Index of 10% or more, starting from the global financial crisis and including the pandemic so far, and how diversifiers held in a simulated portfolio fared in comparison. Encouragingly, a quarter or more of these funds posted positive performance in stressed periods, and nearly all funds

Figure 4: Funds on our actively managed diversifiers list (%)

This chart shows periods when the MSCI World Index has fallen by 10% or more and how funds we classify as diversifiers have performed.



Source: Bloomberg, Morningstar and Rathbones.

across all stress periods had a drawdown that was less than a third of the MSCI World.

What about performance over longer time periods? We ran a simulation on a traditional 60/40 portfolio over the past 15 years using actual fund performance from Morningstar. This showed a correlation of 0.98 to a portfolio of 100% equities, 1.0 representing a perfect correlation. And, surprisingly, even a portfolio of 30% equities and 70% bonds would've had a correlation of 0.74 over the same period. This illustrates that the majority of risk within a traditional combined portfolio of stocks and bonds is equity-type risk.

Figure 5 shows a historical comparison of various measures of return, risk and risk-adjusted returns for an equity-only portfolio, a 60/40 portfolio and our simulated portfolio including a strategic blend of diversifiers. The figures suggest the diversifiers within the simulated portfolio limited downside compared to the equity-only portfolio and the 60/40 blend of equities and bonds, took on less risk than the latter and produced favourable returns when adjusted for risk.

What drives returns

What are the different types of diversifying strategies, their role in multi-asset portfolios and the conditions that might be conducive to positive performance?

Long–short equity, where managers can make a profit when share prices rise and others fall, is one of the most popular diversifying strategies, though some funds in this category track equities fairly closely and we wouldn't consider them as diversifiers. The average stock market correlations have fallen dramatically over the past 18 months, which in theory should create better conditions for identifying winners and losers. However, managers may not get their stock-picking right.

Event-driven funds seek to exploit pricing inefficiencies that may occur before or after a corporate event, such as an earnings call, bankruptcy, merger, acquisition or spin-off. If the aftermath of the pandemic leads to consolidation, where stronger companies snap up their weaker rivals to gain market share, these kinds of strategies may stand to do well. But 'deal risk' from regulatory or political challenges, for example, is an issue for event-driven strategies. Again, stock-picking is key to capturing returns from these anomalies.

Global macro managers invest according to economic and political conditions in various countries. These funds experienced a rough patch in recent years owing largely to the absence of volatility in markets, but COVID-19 and other risks such as a hard Brexit or a global trade war could create opportunities.

Commodity trading advisers (CTAs) – also known as trend-following funds – use derivative contracts across all asset classes to generate returns from market trends. Evidence so far suggests they have been successful in picking up some of the clear trends emerging from the pandemic, such as falling commodity prices, falling long-term yields and currency moves.

Knowing what the various drivers are for the performance of the different strategies can help tilt portfolios toward the current opportunities. But the important thing is that these drivers are different from equity markets, and Figure 5 highlights the importance of maintaining diversification at the strategic level. The wide range of fund returns suggests that fund selection is key and can add real value over and above strategic and tactical allocation within diversifying strategies.

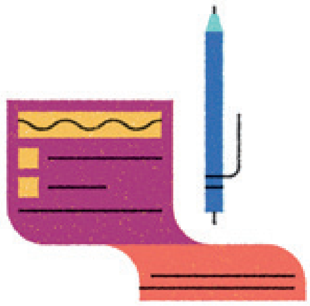


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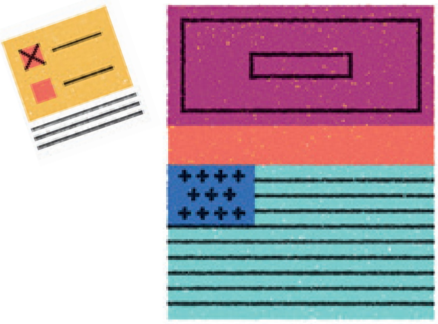
Figure 5: Returns and risk over the past 15 years

These figures suggest the diversifiers in our simulated portfolio helped produce favourable returns when adjusted for risk.

	Portfolio with diversifiers	100% equity	60% equity / 40% bonds
Annual return (%)	7.5	8.8	7.3
Annual volatility	8	13.4	8.9
Historical Sharpe ratio	0.8	0.6	0.7
Maximum drawdown (%)	-23.8	-37.2	-25.9
Maximum drawdown period	Oct 07 to Feb 09	Oct 07 to Feb 09	Oct 07 to Feb 09

Notes: volatility is a measure of how much returns rise and fall, the Sharpe ratio measures return relative to risk and drawdown is the decline from the previous peak to the trough.
Source: Bloomberg, Morningstar and Rathbones.

US voters could swerve to the left in this year's presidential election



The US Democratic Party's agenda includes higher corporation tax, higher minimum wages, and more regulation. Should investors be concerned?

Former Vice President Joe Biden's odds of being elected President on 3 November have shortened considerably recently. At the time of writing, oddschecker.com, which aggregates the odds of familiar bookmakers, gives him a 58% chance. To bet on him on Predictit, an experimental political betting site run by academics and often quoted in the media, you'd have to pay 61 cents on the dollar, up from 52 cents at the beginning of June.

Pollsters are also registering the shift of opinion, some quite markedly. However, the Gallup poll, our preferred measure, thanks to its long history and therefore testability, showed Trump's approval rating dropping at the end of May, but not beyond his past range. If it stayed here it would be consistent with a loss. But it could rebound if civil rights are relegated from the voters' agendas as, distressingly, they often are. His approval rating hit a personal best in early May, before the deterioration in race relations, around the same level as President Obama's was five months before his 2012 re-election.

It's all about employment

Pollsters and bookies have been wrong before. We view US elections as referenda on the incumbent President and his party's record on the economy, as we noted in last quarter's edition of Investment*Insights*. His prospects are now inextricably linked to the highly uncertain outlook for employment. If a very large proportion of temporarily laid-off workers are re-employed, Trump's chances, according to this econometric framework at least, are still good. If unemployment remains high, Biden is likely to take office.

If Mr Biden were to win, the market reaction will be determined by whether the Democrats take the Senate, and his choice for running mate. Biden is from the centrist wing of his party – he's no Bernie Sanders. But a progressive (read, socialist) choice would likely unnerve markets. A fellow member of the Democratic establishment, such as Kamala Harris, would likely temper the market reaction to his victory. The vice president matters more this time because at 78 Biden would be the oldest US president by quite some margin. We should know his choice by the first week in August at the latest.

A taxing time

The bipartisan Tax Policy Center suggests Biden will raise $4 trillion in taxes over 10 years, in part by increasing the corporate tax rate to 28%. That's still 7% below where it was in 2016 but could shave around 5% from the earnings per share of the S&P 500 index. Biden's expenditure plan is harder to tally but given his plans have been described as "more ambitious than FDR's", expenditure is likely to exceed taxation. He also wants to double the minimum wage, and change regulation to make union organisation easier.

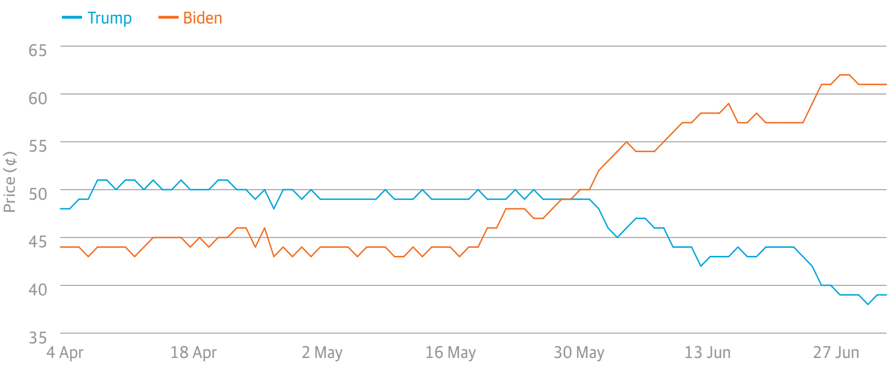
All told, Biden's plans are likely to increase aggregate demand (corporations and wealthy households have a lower propensity to spend income than the average worker) but decrease the corporate sector's share of the pie, which could be net-negative for profits. But investors should remember that his redistributive agenda won't make it into law if the Democrats don't control both chambers in the Capitol. To do that they need to win all four "swing seats" currently held by Republicans in the Senate. That's a tall order. Concerned investors need to multiply Biden's odds by the odds of the Democrats winning the Senate (given a Biden victory).

Four months is a long time in politics. And in markets, especially with today's uncertain outlook. We note that US equities have only posted above-average returns in the four months leading up to just two of eight elections since 1988. As we concluded in our outlook article on pages 3 and 4, we think investors should remain broadly invested, but with some good defences against uncertainty.

Investors should remember that Biden's redistributive agenda won't make it into law if the Democrats don't control both chambers in the Capitol.

Figure 6: Betting odds on Trump versus Biden

According to recent betting odds, Joe Biden is likely to be the next US President, but there's still a long time to go.



Source: Predictit.org.

An active approach to passive investing during uncertain times

Amid the pandemic, demand among European investors for exchange-traded funds (ETFs), the passive, index-tracking cousins of actively managed funds, held strong. Would a cheaper, passive option have been a wise choice over active management in these volatile times?

Despite the turbulence, Morningstar estimates that European-domiciled ETFs have received net inflows of €15.7 billion so far this year. Their success has varied according to geography. But what's stood out is the spread of returns between the best- and worst-performing funds. We've seen similar spreads in active funds, but the question is: has active or passive shown an edge?

Winners and losers

Let's start with this year's worst-performing globally invested equity ETFs, which are predominantly in the camps that follow income and value styles. Every fund is slightly different, but generally these types of ETF stick to screening rules based on historical data. For example, income ETFs look at company characteristics such as current yield, previous year-on-year dividend increases, and how well they've covered their dividend payments in the past. Value ETFs screen holdings according to valuation criteria, such as low prices relative to earnings or book value.

This has led to ETFs taking outsized sector bets in the traditional hunting ground of the income investor, notably in financials and energy, some of this year's worst-performing sectors. These have been some of the most income-generative sectors in the past. Financials, and banks in particular, are highly sensitive to economic conditions, while energy companies have been bit by plunging oil prices.

Active managers are not immune to these challenges either. A Morningstar composite of actively managed global income funds was down 7.3% in the year to the end of May, underperforming global indices such as the MSCI World. But the flexibility of these active funds, their ability to anticipate bad news and to sell holdings more quickly than their passive peers should in theory help them be better positioned to limit losses.

No particular surprises as to who is at the top of 2020's performance tables so far — technology and healthcare. The ETFs in these sectors have performed well relative to the broader market, along with their active peers, but their returns have been eclipsed by some niche, sub-sector ETFs. The drive to find a cure for COVID-19 has boosted biotechnology. Cloud and internet-themed ideas such as cybersecurity and gaming have benefited from a world in lockdown, while gold miner ETFs have also performed well as demand for safe havens has increased.

Building portfolios for the long term

Position sizing in ETFs is based on a number of different criteria, including the market capitalisation of a company, its industry classification, and how much revenue a company generates from a particular business area. Other criteria used in active management, such as valuation, solvency and leverage are often not considered in ETF construction. Instead, ETF providers attempt to mitigate stock-specific risk by diversifying across many companies, and giving equal weights to each one can limit risk here too.

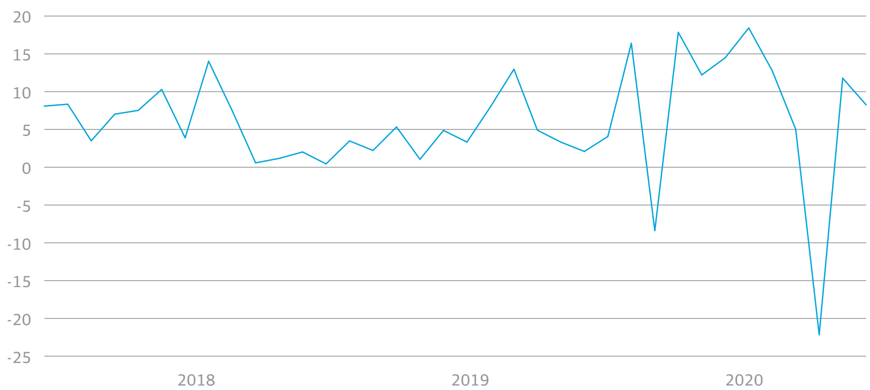
To gain exposure to these more focused ideas, an investor may have to take a bit more risk. That's simply because the investible universe will be smaller and less established than the big 'blue-chip' names that dominate country and broad-sector ETFs.

There are many arguments for and against active or passive funds in times of crisis. We think they are misplaced — there are pitfalls and merits in both, and they shouldn't be evaluated solely on short time periods. This crisis won't be the last and what matters is getting the best risk-adjusted return over the long run, in line with individual financial goals and tolerance for risk. That requires an active approach to managing a well-diversified portfolio, but passive funds have a role to play.

We started this series on active versus passive investing in our previous Investment*Insights*, which came out at the start of the coronavirus pandemic. What we've seen so far has confirmed the conclusion we reached then — there are advantages to building a portfolio that blends active and passive vehicles, rather than sticking with one or the other.

Figure 7: ETF flows in Europe (€ billions)

Passive funds have enjoyed substantial investor flows as Europe's stock markets have recovered.



Source: Morningstar and Rathbones.

Financial markets

After suffering one of the steepest and quickest declines in history into early April, stockmarkets embarked on an almost uninterrupted upward streak for the rest of the second quarter. However, there was a huge divergence in sector performance. The rally was mainly led by large technology companies, which conduct most of their business online and have continued to grow their profits. The S&P 500 closed above levels seen on 31 December 2019, while the Nasdaq index hit the highest mark in its history.

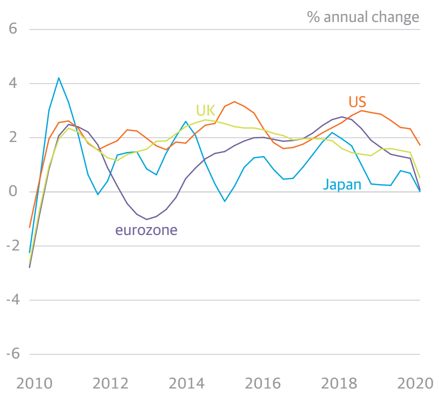
Amazon alone has added $401.1 billion to its market value amid the accelerated shift to online shopping and increasing reliance on its cloud computing business as people work from home. Some healthcare and pharmaceutical companies also performed well as the search for a COVID-19 vaccine gathered pace. Meanwhile, some of the hardest hit companies were in airlines, energy, industrials and financials sectors.

Bond yields to stay lower for longer

Central banks have responded to the crisis with extensive stimulus measures. With interest rates likely to remain low for some time, government bond yields are also likely to remain depressed. There appear to be few signs of any inflationary pressures, making inflation-linked bonds unattractive. Corporate bond prices fell in March as large parts of the world went into lockdown but have recovered with lots of help from central bank buying. The largest issuance of high yield bonds, those with credit quality ratings below investment grade, is in the US, and the Fed has supported a number of them.

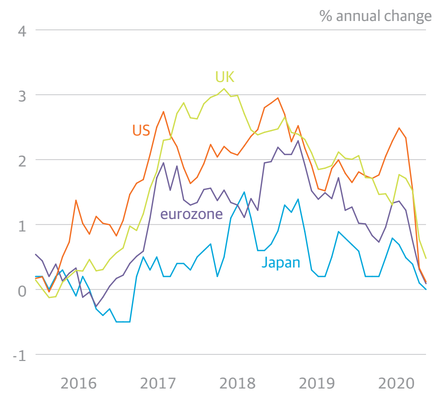
Since the start of 2020, gold has been one of the best-performing assets. Investors often turn to gold during times of uncertainty and the coronavirus pandemic has been no exception. Despite some weakness when investors sold gold to raise cash during the worst days of the crisis, prices have surged to the highest in more than seven years.

GDP growth



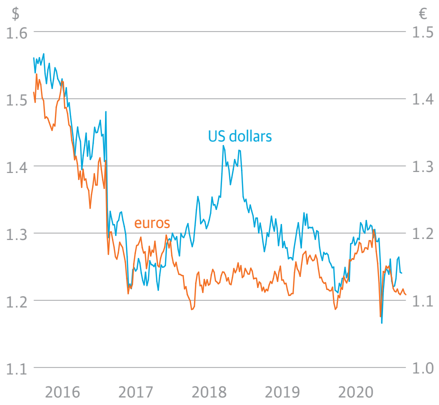
Source: Datastream and Rathbones.

Inflation



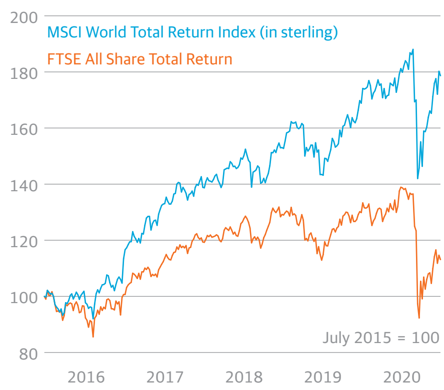
Source: Datastream and Rathbones.

Sterling



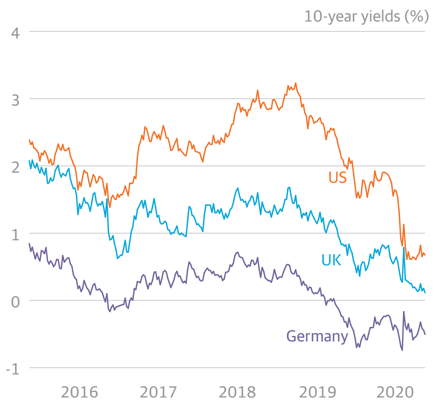
Source: Datastream and Rathbones.

Equities



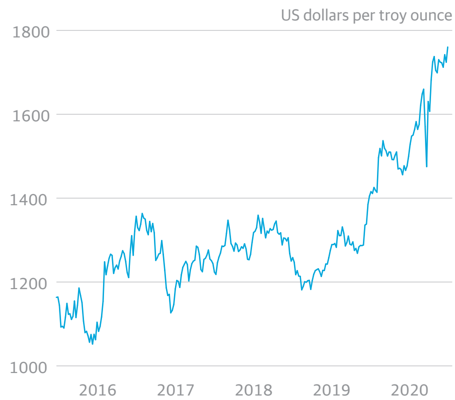
Source: Datastream and Rathbones.

Government bonds



Source: Datastream and Rathbones.

Gold



Source: Datastream and Rathbones.

Past performance is not a reliable indicator of future performance.

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