TAM ESG PORTFOLIOS
QUARTERLY COMMENTARY: Q2 2020

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MARKET
Review

Markets across the globe staged a dramatic recovery in the second quarter, rising sharply from the lows experienced in March. In the UK, the FTSE 100 index returned around 9%, while the S&P 500 index of large-cap US companies returned roughly 20% over the three-month period. Although positive sentiment returned to equity markets, economic fundamentals continued to deteriorate, with recession alarms ringing in several European economies, including the UK. However, central banks continued with unprecedented stimulus measures which helped to sustain the positivity.

Meanwhile, trade tensions between the US and China resurfaced, with President Trump blaming China for the global spread of the coronavirus, before moving on to revoke special trade privileges for Hong Kong, as he felt it was losing its independence from China. Volatility in the oil market reached new highs, with the price of a barrel of oil falling below $0 for the first time in history due to huge over supply, as the global lockdown continued to supress demand.

Equities rose further in the second half of the quarter, driven by higher than expected US jobs numbers, which put US equity markets back into positive territory for the year. However, this optimism quickly reversed after the Federal Reserve painted a gloomy picture for US economic prospects, whilst data revealed that the UK economy shrunk at the fastest monthly rate on record in April. To add to this, fresh outbreaks of the virus in China and the US added to concerns about a second wave of the pandemic, keeping equities supressed as we ended the quarter.

PERFORMANCE REVIEW

The performance data below relates to the period 1st April to 30th June 2020.

	Portfolio %	Benchmark %	Relative %
Defensive	4.95	1.69[1]	3.26
Cautious	6.93	3.77[2]	3.16
Balanced	9.35	5.35[3]	4.00
Growth	13.01	7.47[4]	5.54
Adventurous	14.86	9.08[5]	5.78

Source: TAM Asset Management Ltd. Notes on Benchmarks: FTSE All-Share Index + Cash (1 Month Libor) in the following proportions: 1) 15% + 85% 2) 35% + 65% 3) 50% + 50% 4) 70% + 30% 5) 85% + 15%

The biggest contributor to performance within equities in the higher risk models came from our holding in a concentrated global equity fund, with many of the companies in the fund being direct beneficiaries from the rise of the healthcare theme. Our UK small and mid-cap funds performed particularly well after Q1's underperformance, whilst exposure to US and Emerging Market equities also contributed to above benchmark returns. Detractors within equities mainly came from global funds which are more defensively positioned, and tend to lag a rising market.

All positions on the non-equity side, including physical gold, corporate bonds and multi-asset funds, outperformed the cash benchmark.

PORTFOLIO ACTIVITY

The main change to the portfolios over the quarter was a reduction in UK small and mid-cap equities, which had been particularly impacted by the COVID-19-induced market downturn. Whilst there had been some recovery since the lows in March, our concerns over the long-term outlook for smaller companies in some of the sectors most exposed to the negative effects of the virus, meant that we felt it prudent to make some reductions here.

We also added to our holding in the newly added sustainable multi-asset fund which invests in a diversified range of asset classes including equities, fixed interest securities, infrastructure, renewable energy, property and physical commodities.

OUTLOOK AND STRATEGY

Whilst equities on the whole rose in the second quarter as lockdown measures were slowly lifted and investor sentiment turned more positive, economic data continued to paint a different picture, reinforcing our concerns over how long this sharp recovery in equities will last. On top of this, the re-emergence of US-China trade wars, the return of potential Brexit risk and fresh localised outbreaks of the coronavirus, have recently added to the uncertainties facing global economies going forward.

For these reasons, we maintain an underweight to equities, although to a slightly lesser extent than we had in the first quarter due to our view that central banks will continue with strong policy responses giving financial aid to struggling companies and citizens. Cash levels have therefore come down as we have recommitted some capital back to equity markets, although we expect them to remain elevated into the third quarter, as the outlook for markets remains unclear.

Importantly, we continue to favour a high quality approach, with a focus on companies with strong balance sheets that would benefit from an improvement in the economic outlook but could also survive if the health outlook deteriorates.

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