



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 suppress 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 suppressed as we ended the quarter.

PORTFOLIO ACTIVITY

The quarter began with a reduction to riskier, satellite investments including Emerging Market equities and UK small and mid-cap equities, which had been particularly impacted by the COVID-19-induced market downturn.

Throughout the quarter, we began recommitting capital back to the equity market as positivity returned. This involved adding back to US equities through a fund which blends active and passive management, and adding to high quality UK and global equity funds which emphasise long-term capital growth through investing in businesses with strong balance sheets and dominant market positions. We also added a new position in a global listed infrastructure fund which we believe will be a beneficiary of government support to infrastructure projects going forward.

On the non-equity side, we added to the defensive capabilities via long-dated UK government debt and an increase in our physical gold investment.

PERFORMANCE REVIEW

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

	Portfolio	Benchmark	Relative
Defensive	5.21	3.27 ¹	1.94
Cautious	4.97	4.99 ²	(0.02)
Balanced	5.49	6.29 ³	(0.80)
Growth	7.80	8.04 ⁴	(0.24)
Adventurous	9.26	9.37 ⁵	(0.11)

Source: TAM Asset Management Ltd. Notes on Benchmarks: FTSE All-Share Index + FTSE UK Gilts All Stocks Index 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 came from our exposure to precious metals, namely gold and silver, through a fund which blends equities and bullion investments. Our UK small and mid-cap funds performed particularly well after Q1's underperformance, whilst our new global equity funds also outperformed the UK centric benchmark. Detractors within our equity allocation mainly came from our UK exposure, specifically large-cap funds which are more defensively positioned, which tend to lag a rising market.

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

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.