Close Brothers Asset Management

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Close Portfolio Funds

Monthly fund manager update

NOVEMBER 2020

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MONTH IN REVIEW

The Close Portfolio Funds all delivered strong positive returns in November as markets rebounded after pulling back in September and October. The Conservative fund returned +3.83%, Balanced advanced +5.51% and Growth rose +6.36%. All three funds comfortably outperformed their respective IA Sectors which returned +1.55%, +2.82% and +4.04% respectively. All three are currently lagging their IA sectors (but only Balanced remains in negative territory) on a year-to-date basis.

THOUGHTS IN NOVEMBER

This month's good news regarding the arrival of Covid-19 vaccines triggered a significant surge in those equity market sectors which had been hardest hit by the pandemic and the ensuing lockdowns implemented across many countries. Hitherto the market has been like a lop-sided pendulum which has spent the great majority of time in recent years favouring growth stocks. Successful equity performance has been achievable by owning popular technology stocks which offer growth potential and future cash flow generation some way ahead of the rest of the market. However, with the hope of an economic pick-up on the back of a successful vaccine, it is possible that value stocks will also have their time in the sun. Such market rotations can be rather violent in the short-term, but then settle into a more stable form depending on how the macroeconomic scenarios work out.

For the time being, however, we continue to like the growth names we hold (nothing has gone wrong there), but one also has to be practical. Much like my football team, Chelsea, which had a pretty strong attacking game last season while often being poor defensively, whereas they have now achieved a more balanced style across their game. They did not have to change the whole squad to achieve this, but simply make sensible tweaks where necessary.

As for longer-term issues around style rotations, investors are probably better off with a quality/growth tilt to their portfolios in the long-run. We do not believe there is currently a valuation issue within the technology sector which would lead to a fundamental reassessment of our outlook and a drastic portfolio repositioning. Therefore, we have not sold any of our holdings on the growth side, but rather added a touch more cyclicality to the portfolio, reducing the cash weighting in the process. This is in line with our wider view that we remain more positive on equities in general relative to other asset classes.

POTENTIAL MARKET SCENARIOS

So how might market conditions play out from here? Well, the good news is that a bear market remains a low probability event (we think a c.30% chance). Financial conditions (which tend to drive the markets) are still extremely accommodative and expected to remain so. And the US Congress is again discussing a further stimulus package worth $908bn now that the US election result seems to be clear.

Key amongst these points is the fact that central banks seem likely to risk staying dovish for as long as economic growth and inflation remain subdued; the approval, distribution and administering of vaccines across populations will take some time; and there is no sight of inflation at this juncture. This is ultimately a backdrop we expect to persist for much of H1 2021.

The less good news is that – given that equities are reaching new highs – one has to ask if much of the above has already been priced in by the market. Unless we get a very strong economic rebound combined with continued price stability and low volatility, valuations might get a bit more extended over the coming year. It is difficult to time exactly how and when this may play out during 2021, so it is something we must monitor carefully. Fortunately, we have a clear idea of how to approach this though our research and disciplined investment process.

To illustrate our current outlook, we can demonstrate sufficient near-term confidence by virtue of the fact that we have started three new equity research ideas: two are cyclical (capital goods and freight transportation) and one consumer discretionary "quality / defensive". We would argue that this speaks for itself in terms of the direction in which we feel we need to be moving the existing portfolios at this point: 2-to-1 in favour of adding a little more cyclicality versus "quality/defensives", and no more tech at this time.

CLOSE PORTFOLIO FUNDS DISCRETE PERFORMANCE AS AT 30 NOVEMBER 2020

	YTD	2019	2018	2017	2016	2015
Close Conservative Portfolio Fund	**0.7%**	**12.5%**	**-2.7%**	**9.0%**	**5.4%**	**2.0%**
IA 20-60	1.6%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close Balanced Portfolio Fund	**-0.3%**	**17.1%**	**-2.9%**	**11.8%**	**6.3%**	**2.9%**
IA 40-85	2.8%	15.8%	-6.1%	10.0%	12.9%	2.7%
Close Growth Portfolio Fund	**2.1%**	**21.9%**	**-3.4%**	**12.5%**	**6.8%**	**2.9%**
IA Flexible Investment	4.0%	15.7%	-6.7%	11.2%	13.8%	2.0%

SOURCE:
FE Analytics 02.12.2020; 2020 (YTD) data as at 30.11.2020; fund performance is total return net of fees with dividends reinvested for X Acc share class.

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