OCTOBER 2020

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	5/10/18	1/1/19	5/4/19	1/7/19	5/10/19	1/1/20	5/4/20	1/7/20	5/10/20
FTSE 100	7319	6728	7447	7426	7155	7542	5416	6170	5943
FTSE All Share	4078	3675	4067	4057	3933	4196	2958	3411	3327
Dow Jones (US)	26447	23327	26425	26600	26574	28538	21053	25813	28149
S&P 500 (US)	2886	2507	2893	2942	2952	3231	2489	3100	3409
Nikkei 225 (Japan)	23784	20015	21808	21276	21410	23657	17820	22288	23312
PIMFA Balanced	1578	1484	1610	1632	1643	1679	1389	1574	1581

Growth Equities	Higher Yield Equities	Mid-Cap Equities	Overseas Equities	Collective Investments
AstraZeneca	Admiral	Diploma	Amazon	Fidelity European Trust I/T
Avast	BATS	Fevertree	Ecolab	Henderson Smaller Companies I/T
Bunzl	BHP Group	Hill & Smith	Microsoft	JP Morgan Emerging Markets I/T
Diageo	National Grid	Liontrust A M	Nike	Pantheon I/T
Reckitt Benckiser	Rio Tinto	LondonMetric	Novo Nordisk	Polar Cap Technology I/T
RELX	Severn Trent	Rotork	PepsiCo	Smithson I/T
Rightmove	SSE	RWS	SGS	TR Property I/T
Smith & Nephew	Unilever	UDG Healthcare	Visa	3i Infrastructure I/T

Though I shall continue to write the majority of our quarterly newsletters, it is valuable and insightful for other members of our investment team to periodically hold the author's pen. As such this newsletter has been written by Will Mellor, our Investment Director. WJB.

The political elite…and everyone else

In my October 2019 newsletter I referred to 'flip flop Jeremy Corbyn' who had become the first opposition leader in history to turn down a General Election when offered one. He has since, quite literally, 'disappeared into the ether' with his only recent publicity being online photographs of him failing to adhere to social distancing requirements outside the Taste of India in Holt (a fine establishment) and breaking the rule of six at a dinner in London (though we know he struggles with numbers). However, in October 2020 the term 'flip flop' can absolutely be used to describe Boris Johnson's pitiful leadership at this crucial time.

The late Margaret Thatcher once famously said 'you turn if you want to, the lady's not for turning' as she faced suggestions she was about to U-turn on Government policy. Oh what we would give for the fortitude and leadership qualities 'Maggie' displayed in her time as Prime Minister. In contrast, during recent months there have been numerous instances of U-turns by our current Prime Minister including:

Face masks being mandatory in school corridors for pupils (or not)
Face masks being compulsory in shops (or not)
Ditching controversial algorithm methods to award A-level and GCSE grades in favour of predicted grades by their teachers
Free school meals (following 'Daniel' Rashford's campaign – yet another embarrassing moment for the hapless Matt Hancock)
Working from home (or not)
Quarantine and air bridges – the Costa del Chaos!

Moreover other policies have simply lacked logic, such as the 10pm curfew for all bars and restaurants causing revellers to get turfed out onto the street all at once rather than via a managed, 'staggered' exit. It is no surprise that infection rates have risen recently as the virus has shown no signs it is getting weaker or less transmissible. I do feel for those University students who have been told to leave their families and return to University, only to then be imprisoned in student accommodation as they adhere to self-isolation rules.

Of course such rules do not apply to the 'political elite' and it is very much one rule for us and another rule for them, as evidenced by the 10pm curfew rule not applying to bars within the Houses of Parliament; until a media frenzy caused yet another U-turn!

Indeed, for the last few months we have constantly heard Boris and other politicians repeating phrases such as 'the best way forwards to protect the NHS, save lives, keep our children in school and support the economy is to follow the rules wherever we live', albeit the bumbling fool of a Prime Minister has also been shown to not know the rules he has set, or indeed follow them himself! It is galling that these politicians have the arrogance to tell us that we must all stick to the rules and that it is our fault that transmission rates of the virus are once again increasing when there is so much evidence that they don't give two hoots about the rules themselves. Indeed, following the 'Cummings road show' in March and various other instances, Margaret Ferrier, the SNP MP for Rutherglen and Hamilton West, decided to travel to London (parliament) on public transport despite having had a test for Covid-19 and then returned to Scotland on the train despite having received a positive test result. Such mind-boggling recklessness from the very people who are telling us all to follow the rules really is infuriating.

I appreciate it is easy to criticise with the benefit of hindsight and am not convinced anyone else would have done a more efficient job of leading the country through these unprecedented times than Boris; perhaps the crisis should not have been politicised and a cross-party response adopted for what is a modern day war.

Of course the situation is no better across the pond. In March 2020 Donald Trump suggested we should ignore the science as 'there are 546 confirmed cases of Coronavirus, with 22 deaths. Think about that!' and here we are six months later with the US death toll in excess of 200,000, POTUS and FLOTUS having just tested positive for coronavirus and the global death toll having passed 1m souls. Incidentally, Donald Trump seems to have a similar lack of foresight in relation to climate change; on 14 September when being challenged by the Governor of California about wildfires he simply responded with 'it will get cooler, the science doesn't know'. This is utterly irresponsible behaviour from, currently, the most powerful man on the planet. I believe we really should listen to the science – after all it seems to work for Bryson DeChambeau where 'the appliance of science' led him to a romping US Open victory.

Against all of this political doom, there is the ray of sunshine in our Chancellor Rishi Sunak who has displayed confidence, leadership and empathy when called upon. Aware of the threat to an already fragile economy, in late September the Chancellor announced a new 'jobs support scheme' to effectively replace the furlough scheme and subsidise the wages of people in work from November. Essentially the scheme allows employers the flexibility to retain employees on shorter working hours (at least 33% of their usual hours) rather than making them redundant, with the Government paying a third of their typical salary and thereby ensuring workers receive approximately 77% of their usual pay.

The Chancellor also announced a raft of other measures including business loans to provide flexibility on the repayment of government support and delaying the planned increase in VAT from 5% to 20% for the hospitality sector until 31 March 2021.

Of course this all needs paying for but with the immediate focus on supporting the economy an expected Autumn Budget, which was widely anticipated to include alterations (increases) to capital gains tax and further pensions reform, has been delayed. However, it is apparent that in due course, with the Government spending like there is no tomorrow, certain taxes will be increased and further nationalisation of the railways may be coming down the track. This all sounds rather 'Conservatively Labour'.

Encouragingly some investee companies, such as RWS, and indeed ourselves at Barratt & Cooke have decided to return their furlough grants to HMRC.

The Economy & Quantitative Easing (with the assistance of Sam Matthews)

Unsurprisingly economic data is grim with major contractions in most global economies:

	Year on Year Q2 GDP	Unemployment	CPI
US	-9%	7.9%	1.3%
Europe	-14.7%	7.5%	0.2%
UK	-21.5%	4.1%	0.2%

Though the US unemployment rate is down from a peak of 14.7% in April the growth of re-employment is moderating and the number of people filing for jobless claims remain in excess of the peak during the Great Financial Crisis (2009). Moreover, in the UK and Europe there are of course job retention schemes and other Government initiatives, as alluded to above, which cannot plausibly go on forever.

Quantitative easing (QE), which was added to the central banker's toolkit during the financial crisis and has since become part of the investment vernacular, is a core global response in the efforts to tackle the economic consequences of Covid-19. Economic shocks cause huge slumps in demand, the result of which is there is simply not enough money circulating in the economy to generate inflation of 2% (the level targeted by UK, US and EU). During both the financial crisis and the Covid-19 pandemic central banks quickly established that simply lowering interest rates was not going to be sufficient in order to avoid stagflation/deflation and turned to QE for a more direct way to inject liquidity into the global economy.

QE is implemented through central banks buying assets (usually government and corporate bonds) in public markets from financial institutions (e.g. insurance companies, asset managers and banks). Crucially these purchases are paid for using money that has been created digitally 'out of thin air'. The aim is to stimulate economic demand through several channels, theoretically:

1. Pushing up the price of government bonds lowers their yield. This in turn lowers borrowing costs across the economy, with the aim of boosting demand as borrowing increases and saving levels reduce.
2. Lower yields encourage the institutions that are sellers of bonds to reinvest into other assets such as equities. In turn, rising asset values stimulate spending as individuals feel better off.
3. The purchasing of corporate bonds aims to ensure capital markets continue to function freely, allowing companies to raise funds cheaply and efficiently.
4. Where government bonds are bought from banks, it is hoped that this will encourage increased business lending activities.

Has QE been effective? Whilst certain aspects have failed to deliver as policy makers would hope (notably point 4 above, which is the only real driver of growth), in the short-term the overall answer is yes. The stimulus packages staved off economic meltdown in 2009 and did so again this year. QE has artificially held down borrowing costs around the world and whilst this has undoubtably allowed some poor business to hang on; more importantly it has allowed good business to survive, saving countless jobs.

A short-term success but what will be the long-term effects? Even before the fresh rounds of QE as a response to the Covid-19 pandemic it was clear that the world has found it very difficult to wean itself off cheap money. This was illustrated by the 'taper tantrum' of 2013 when attempts by policy makers to begin 'normalising' monetary policy sent stockmarkets sharply lower. Whilst the US Federal Reserve managed to raise rates steadily from 2016 to 2019, the European Central Bank and Bank of England felt unable to follow suit. Post Covid-19 this pattern seems set to repeat itself and our base case is that interest rates remain close to their lows for some considerable time.

Flooding the world with cheap money does however come with one major tail risk: higher inflation. Much was made of QE's potential inflationary impact in the aftermath of the financial crisis and whilst this did not materialise, it should not be dismissed as a potential post Covid-19 risk. In the words of American economist and Nobel Memorial Prize winner Milton Friedman:

"Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output."

Many hold this statement to be as true now as it was in 1970. QE has caused money supply to grow at record levels and unlike the financial crisis, where money poured into banks to secure their balance sheets, this time policy makers have attempted to circumnavigate the banks to push money more directly into the economy. Countering this argument is that transactions (the rate at which money changes hands) have fallen off a cliff and currently stands at record lows. Even if there is more money supply, prices will not be pushed up if it is not being used to buy goods and services.

In terms of our stance on future inflation, history has shown that QE does not automatically lead to higher inflation and we are not expecting it in the near term. However, we do take the view that the massive amount of stimulus injected into the world economy, not just from QE but also from other non-conventional policy measures, has increased the probability of higher inflation in the medium term.

US Presidential Election

In the months leading into the first of three live showdowns ahead of the US Presidential Election, Democrat Joe Biden has remained ahead in the polls. Moreover, following 90 minutes of one of the most chaotic debates in US political history, full of personal insults and mud-slinging, little has changed and the biggest loser was the people of the United States of America. On balance it could be argued that Trump came out marginally on top, yet Biden landed a couple of decent blows, such as taking Trump to account on man-made climate change. The breaking news of Trump testing positive for Covid-19 does put into jeopardy whether he will remain well enough to continue his campaign and indeed emerge from his quarantine bunker to participate in the two remaining debates.

Should the President be unable to rally and get his election campaign back on track it would seem increasingly likely that Joe Biden will be successful in the race to the White House. With the largest states, such as New York, California and Illinois, set to vote Democrat it is highly likely that Biden will win the National Poll. The question is what happens in the swing states of Pennsylvania, Florida and Minnesota which Trump has to win to stay in the White House. The latest polls have Biden ahead in all three states but of course there is the 'Silent Trump' vote to account for; it is remarkably close but Biden seems likely to prevail. Irrespective of who wins, I am sure the 'Renegade Royals' will have their say on matters.

Approximately 30% of senators are up for re-election, many of which are Republican, but I expect them to hold the Senate (albeit with a smaller majority) since there are two senators per state and the smaller states in the mid-west and Alaska will vote Republican. The House of Representatives is expected to remain Democrat and with Kamala Harris and other left-wing Democrats in the House driving US politics it seems 'Sleepy Joe' will be the voice of a new direction in US politics. Indeed, if this is correct and he sends Elizabeth Warren to the Treasury there would likely be a significant increase in US corporation taxes.

In the short-term we are therefore cognisant of heightened volatility in the US equity market. However, many of the world's leading companies, the likes of Amazon and Microsoft, are located in the US and we believe it is important to retain exposure to such companies over the longer term since they are dominant businesses serving structurally growing markets. Over the past ten years the S&P 500 index has outperformed all other developed world markets and, with the tech sectors weighting in the S&P rising, we see no reason for this to change, whoever is in charge of the Presidency, the Senate or the House of Representatives.

As an aside, Donald Trump is in the Covid-19 at risk age category and I would suggest a tad overweight. What price this egotistical maniac uses ill health, given the likelihood of election defeat, to step aside leaving Mike Pence to become the next President? Faites vos jeux.

Portfolio Strategy

With Gilt yields of all maturities having shifted significantly lower in recent months and the Bank of England seemingly more willing to consider negative interest rates, the returns from Gilts are likely to remain depressed for the foreseeable future. However, such investments do have attractions on liquidity and risk management grounds whilst, in my mind, quantitative easing cannot go on indefinitely without generating inflation. We believe sterling investment grade Corporate Bonds continue to offer reasonable value relative to Gilts and our preference therefore remains, where fixed interest investments are required, for a blend of short-dated and Index-Linked Gilts combined with exposure to Corporate Bonds, predominately via Funds.

With unorthodox monetary policy seemingly set to prevail for some considerable time we feel comfortable with enhanced diversification via alternative assets such as gold and infrastructure funds. Moreover, we have started to 'dip our toe' into private equity which is likely to play a progressively important role for investors as companies increasingly choose to join the public markets (i.e. to list on the stockmarket) at a later stage in their development. The Covid-19 pandemic has created a polarised equity market of winners and losers with huge disparities between the returns from global indices during 2020. Markets such as the S&P 500 that are dominated by low yielding, high growth technology stocks have seen rapid recoveries to new highs, whilst historically higher yielding, resource heavy indices such as the FTSE 100 remain depressed. To put this into perspective, on 1 September the value of iPhone maker Apple peaked at $2.2 trillion which was worth more than the entire FTSE100 on its own! Moreover, a few days later the Apple share price slumped by 8% for a c$180bn loss in value, the largest one day fall in value terms for any US company on record.

We expect such volatility to continue, but our preference for quality over value remains and, though not complacent, I am comforted that our increasingly global approach to equity investment has ensured client portfolios have generally recovered to pre-pandemic values.

There has been an acceleration of structural trends with Satya Nadella, the CEO of Microsoft, suggesting 2 years' worth of digital transformation took place in just two months. Where appropriate we have sought to ensure client portfolios benefit from this digitalisation of economies via:

Structural trend	Equity exposure
Acceleration of e-commerce	Amazon, LondonMetric, NIKE
Move to a cashless society	Adyen, VISA
Work from home culture	Avast, Microsoft

You could argue Diageo is a beneficiary of the pandemic too – it certainly is in my household!

Alongside such stocks, portfolios continue to retain exposure to the long-term B&C stalwarts found in the fast moving consumer goods (Kimberly-Clark, PepsiCo, Reckitt Benckiser, Unilever etc) and healthcare (Novo-Nordisk, Roche etc) sectors. Such companies, with market leading positions, strong balance sheets, attractive returns on capital employed and prodigious cash generation are able to support dividends whilst also reinvesting within their businesses with an eye on the long-term; a rare combination in such uncertain times. History suggests market leaders emerge from such unprecedented situations in an even stronger position (as weaker competitors fall by the wayside) and I therefore have no doubt that continuing to add to Rightmove during the pandemic was…the right move!

ESG

Legendary television and radio broadcaster Sir David Attenborough, aged 94, has just become the fastest person to 1m Instagram followers having setup a new account, highlighting the increasing focus on ethical and environmental issues as the world seeks ways to transition to a more sustainable future. Beyond traditional metrics such as leverage, free cashflow yields and returns on capital employed, within our research process we are increasingly monitoring environmental/social/governance (ESG) factors such as water waste per £m of revenue and greenhouse gas emissions per £m of revenue. This deep research process has allowed us to launch our Bespoke ESG portfolio service for clients who wish to not only avoid investing in stocks which do not meet their ESG requirements (i.e. armaments/ polluters etc) but wish to invest in 'positive impact' stocks which not only provide financial returns but also generate positive, measurable social and environmental impact. For more details please speak to your advisor.

Fund Portfolio Service (by Edward Sidgwick and Sam Matthews)

On the 1st August 2020, the TB Opie Street funds enjoyed their first-year anniversary. We are delighted to now be managing the Funds on behalf of the 850+ clients utilising our Fund Portfolio Service, each with investments up to £200,000 (typically).

It has of course been an extraordinary period to be managing these new funds but we are pleased with progress thus far. Indeed, the funds have performed encouragingly against a tumultuous backdrop, outperforming their respective benchmarks in the year to the 31st July 2020. Inclusive of income, the Balanced Fund was down 4.6% (benchmark down 5.0%) and the Growth Fund up 0.7% (benchmark down 6.0%), against the backdrop of the FTSE 100 falling 19.2% in the period.

Whilst the impact on dividend income from the Covid-19 pandemic is well documented, the income yields on the funds (for those investors holding the income share classes) are running at 2.8% for the Balanced Fund and 0.9% for the Growth Fund. These yields are broadly in line with our expectations at launch in 2019 and we are cautiously optimistic on the prospects for relatively resilient future income.

We have little doubt that the stockmarket volatility that we are currently witnessing is presenting attractive investment opportunities, from which fund holders will benefit in years to come. This is particularly the case with the investment trust holdings, many of which we have been adding to in recent weeks and months, whereby we are able to take advantage of historically wide discounts to underlying asset value (reflecting weaker investor sentiment) and attractive associated income yields, with dividends typically supported by reserves (surplus income retained in prior years for bolstering dividends in more challenging times).

As well as providing an excellent solution for our existing clients, the funds are helping to ensure that we can continue to engage with a younger client demographic, achieved with a lower minimum investment hurdle at the outset. For example, we are seeing increased numbers of clients considering generational planning, passing money down the generations, for which the TB Opie Street Funds/Fund Portfolio Service are well suited.

We are grateful to our clients for their support in this first year and we are excited about the funds' prospects.

Staff update

I am pleased to report that my colleague Alastair Jackson has been promoted to an Associate Director alongside Edward Sidgwick and Sam Matthews. Having joined Barratt & Cooke in 2008 Alastair is responsible for a significant client book, predominately consisting of private client and trust portfolios. He has consistently demonstrated an ability to deal with complex trust issues in a calm and knowledgeable way and is a great asset within our wider investment team.

On a more general note, having spent most of the summer with a core skeleton team of 6 staff in our office and the remainder working from home, we had gradually begun to repopulate our offices with staff during July, August and September. However, following the recent Government guidance we took the decision to once again reduce the number of staff working in the office. We currently have 23 staff working out of our three offices (two in London Street along with our 'disaster recovery' site on the outskirts of Norwich) with the balance working from home. As you will recall, we successfully transitioned to a work from home culture immediately the first lockdown was announced and are confident that clients will continue to receive the level of service to which they are accustomed to, irrespective of Government guidance. It is very much business as usual.

To France and back

As some of you will know, having previously completed the Austrian Ironman and numerous Norfolk Superhero challenges, along with stepping into a ring against a scaffolder from Thetford in 'white collar boxing', William Barratt had a 25th August to 2nd September window to swim the Channel. After 2 years of training, including regular 3:30am alarm calls to swim in the sea at Sea Palling before work and swimming in an outdoor swimming pool in just speedo's on Christmas Day, William thought his dream had succumbed to bad weather as the crossing was cancelled…only to then be offered an un-probable weather window a week later. So William, supported by his wife Hannah, Sam Barratt and Dani a swim friend, arrived at Folkstone and boarded a tiny fishing boat at 12:30am, before setting off to Dover for William to hurl himself into the ocean in pitch black and take on the challenge which lay ahead.

Sam and Hannah had to feed him every 30 minutes via an extendable dog lead (he wasn't allowed to touch the boat) in order to replenish his energy levels and quite remarkably, 15 hours 25 minutes later, William stepped onto the beach in France having accomplished the most monumental feat by swimming the Channel. In a show of support, and unbeknown to William, CWLB and Caroline had made the journey down to Dover with William's three children to welcome him back to British soil.

This was a truly remarkable effort which required long-term planning, determination and courage; all of which are characteristics William brings to his role as Chairman of Barratt & Cooke. With CWLB having handed over the reins to William in recent years I have no doubt our firm is in excellent hands for the next generation, for the benefit of clients and staff alike.

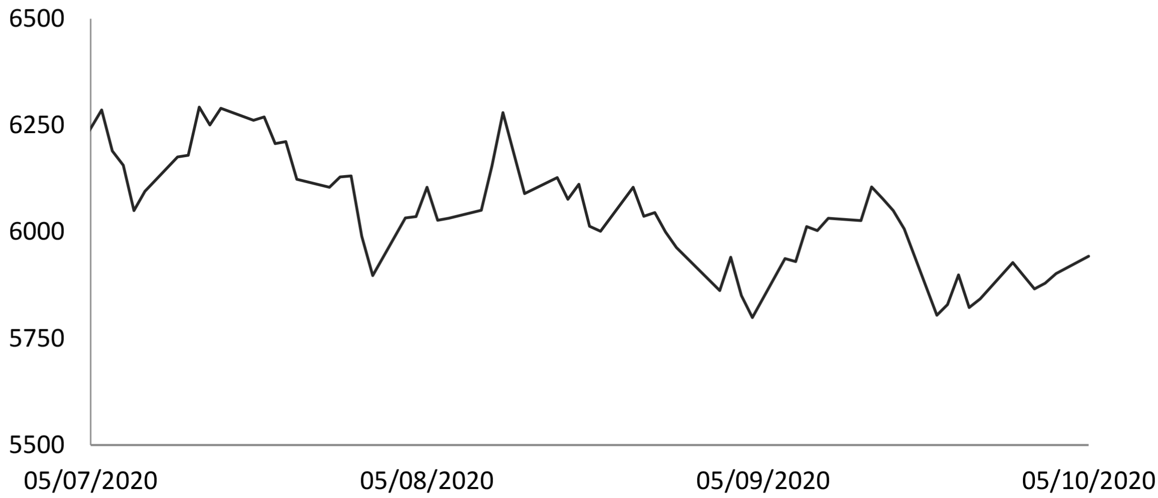
Conclusion

Though the value of engaging in face to face debate is, to my mind, unparalleled, the use of technology in the way we run our daily lives will continue to accelerate and economies will continue to digitise. Indeed, even if a vaccine is produced to combat Covid-19 it will take time to roll out whilst people will remain reluctant to engage in long-haul businesses trips or return to a rigid daily office environment. The flexibility technology provides us, and the cost savings it can achieve, have become apparent to even the most technologically ignorant. As a result, technology companies have become high growth, high margin and highly defensible businesses whilst the adoption of technology is migrating across most sectors of society; education with e-learning and healthcare with robotic surgery being just two examples. Much like Jeremy Corbyn, expect more aspects of your daily lives to disappear into the ether.

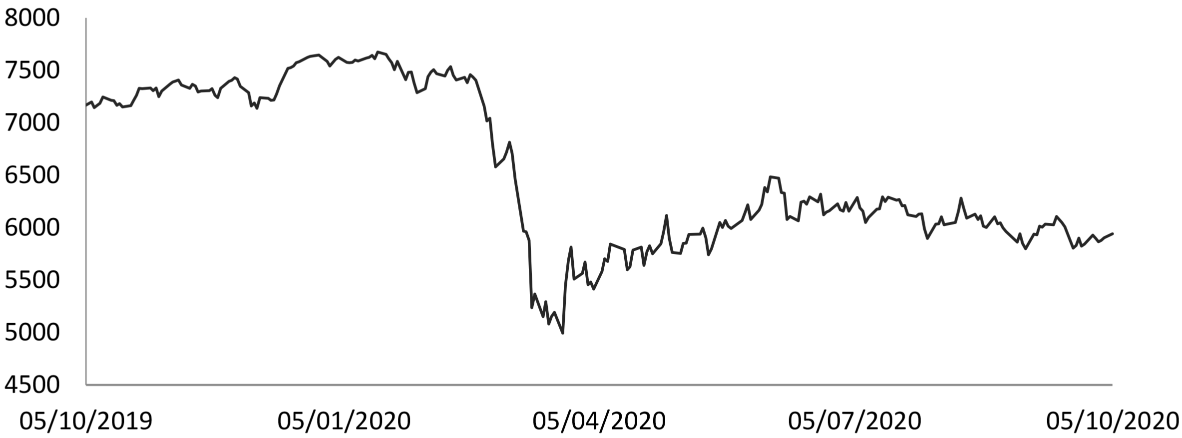
However, though technology has proved to be invaluable in ensuring businesses can continue as efficiently as possible in these unprecedented times, at a social level we must not lose that personal touch. The first lockdown came in early Spring, the weather was pleasant and many of us were able to spend the days pottering around in the fresh air of our gardens. As a Patron of a mental health charity I really do fear for what the cold, dark and miserable winter months may bring during this pandemic. It will be a lonely time for many, the elderly or indeed those working from home with little or no support around them. So I urge you all to make the effort to keep in touch with those around you and support each other; compassion, thoughtfulness and kindness will help us all get through the coming months together, irrespective of what 'flip flop' Boris Johnson and his Government announce.

W J Mellor
05/10/20

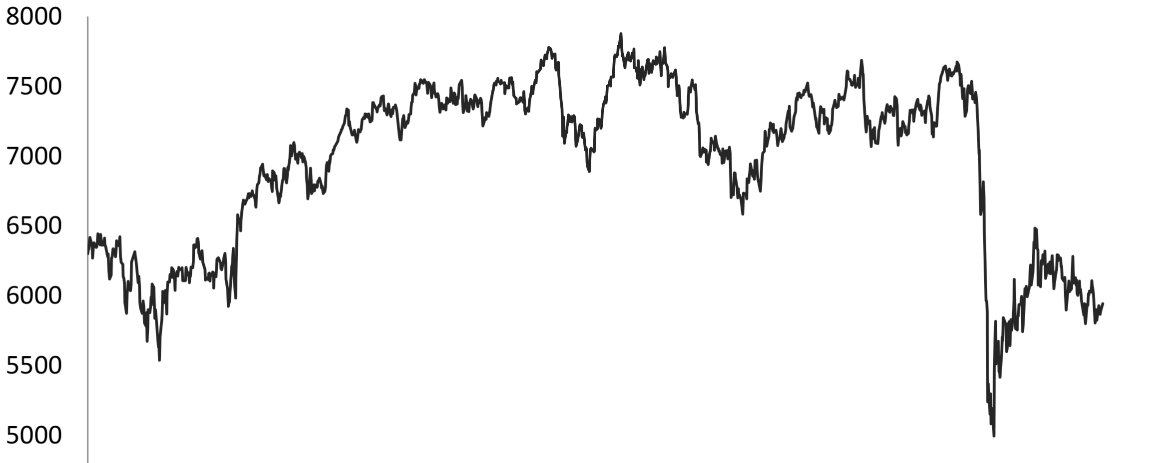
FTSE 100 – Previous Quarter



FTSE 100 – 1 Year



FTSE 100 – 5 Year



Source: Proquote