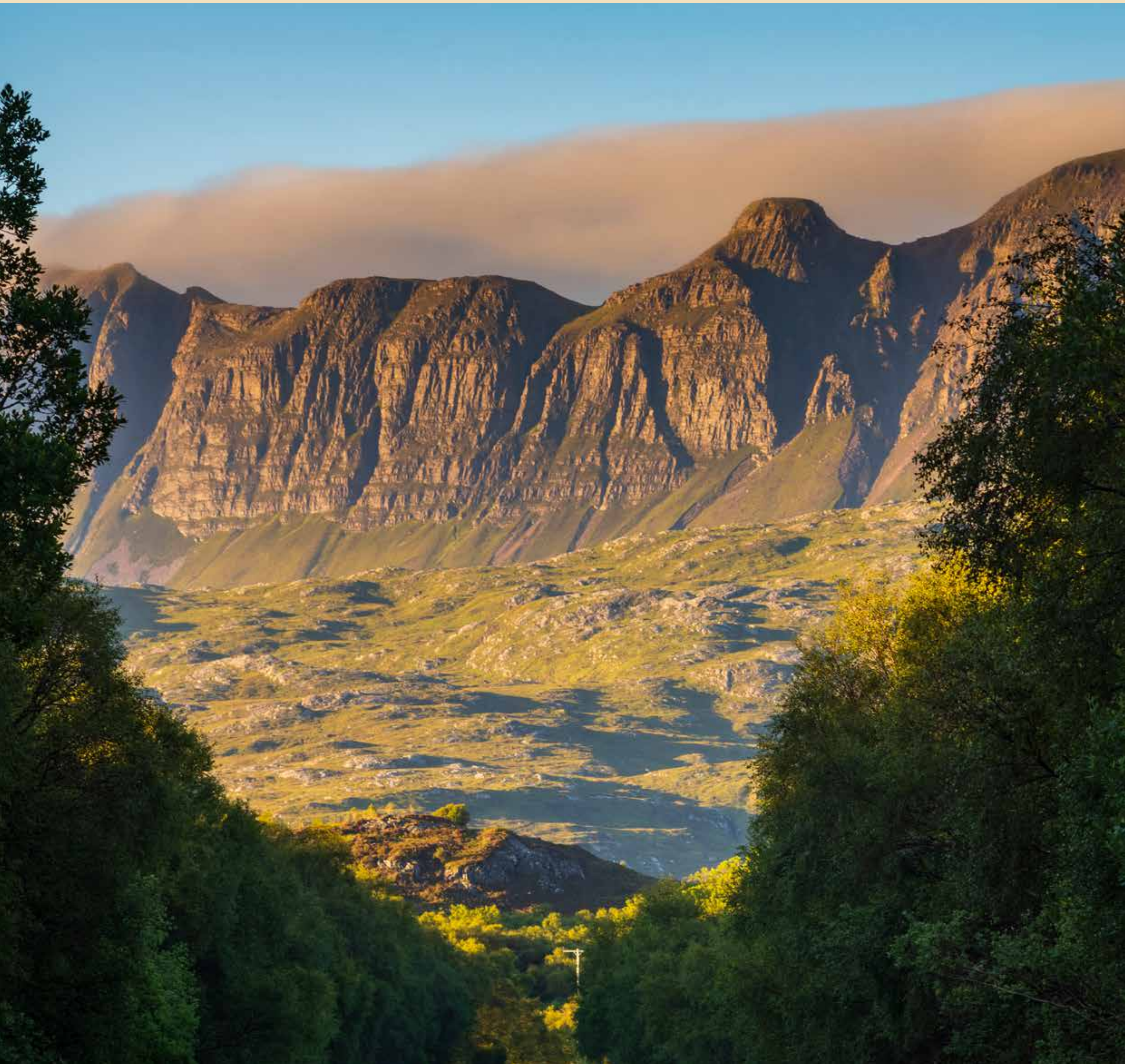
CHARLOTTE SQUARE
INVESTMENT MANAGERS

INVESTMENT BULLETIN

SUMMER | TWO THOUSAND AND TWENTY



After a deeply challenging first quarter for risk assets, Q2 of 2020 has been paradoxical in nature. In this period, the US (and many other regions) are likely to have experienced one of the worst contractions in GDP in history, and yet the S&P 500 index has managed to achieve its best quarterly return in two decades. How so, and what might the summer months have in store for investors?

In past recessions or business cycles, stocks have tended to bottom (or top) when leading indicators of the economic backdrop have bottomed (or peaked). There is evidence of this now, following a sudden and severe collapse over a period of just a couple of months, with the trough in leading economic activity likely having occurred in April this year. Markets, however, tend to look six months in advance and – where there are signs of an economic recovery – can rise, even if the economic backdrop is still recessionary. Also, recoveries following unexpected shocks have tended to be more rapid than those following recessions that arose from accelerated market cycles. The pandemic (COVID-19) would certainly seem to qualify as an unexpected shock. It is worth noting that the S&P 500 itself has a significant concentration in technology stocks, which have fared much better – both going into and coming out of the crisis – than other developed market peers (including the FTSE 100).

Looking forward, we do believe the road will be bumpy ahead for markets. On the plus side, investors do have more clarity on what they are dealing with now: COVID-19 has moved from being a *known unknown* (we know there is a pandemic, but we do not know how bad it will get and what the impact will be) in March, to a *known known* (we now have a much better understanding of the disease, how to handle it and a path to economic recovery) in June. The world does have a lot of adjusting to do now though – it is unlikely that the world will return to business as usual in the coming months and that we are very much in the *learning to live with it* phase when dealing with the virus, which will undoubtedly present social, political and economic headwinds.

For investors, the months ahead will present opportunities and challenges, as markets move with sentiment around the virus and ensuing impact. Our positioning has a cautious stance, favouring assets that still present value in the equity space, which is now pushing us towards more cyclical sectors and away from the US market, blended with assets that can help with any further shock to growth and the potential for inflationary forces to emerge down the line. Gold and related assets remain a core element in portfolios, serving a range of investor requirements.

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