Marlborough International

January 2021

# Marlborough Update

***Marlborough Director Graham Bentley puts the events of 2020 into perspective and looks forward to a more positive 2021.***

Wherever you are reading this - other than the continent of Antarctica perhaps - your life story will have been indelibly marked by Coronavirus. Many countries have started 2021 in a third wave of infections, via a COVID virus significantly more virulent than the strain which emerged 12 months ago. And yet, this annus horribilis 2020, despite its calamitous events, should nevertheless have seen most clients' investments end it in significantly positive territory.

Unless of course, you could not resist the temptation to sell out in late March. In this review last year, I made the point that market timing was a mug's game, and that contrary to the market's signals in late 2018, you'd have been pretty unlucky to have lost money in 2019. 2020 has served to underline that point.

In March the eleven-year global equity gravy train jumped the tracks and plummeted down an embankment, falling up to 35% in the case of the UK, and over 25% in the US in sterling terms. This produced the sadly familiar "Billions Wiped Off Markets" headlines in the tabloids, that are rather less than helpful when attempting to placate clients' fears for their finances. Oil companies were particularly badly hit as demand disappeared, and cheap money hit banks' margins. These sectors lost 40% of their value, and their dominance of the FTSE100 was more punishing than in other markets. Travel and leisure stocks were badly hit as lockdowns took their toll.

However, the recovery in global equity markets has been astonishing, and that revival accelerated when successful vaccine trial results were published at the end of October. Suffice to say there have been no "Billions Added to Pensions" headlines; in retrospect, the market falls in March look rather more like the Crash of 1987 given the speed of descent and subsequent recovery, rather than the extended downturns like the financial crisis in 2007 or the dotcom bubble in 2000.

That said, changes in social circumstances and behaviour presented opportunities for many companies. Our preference for avoiding supermarkets saw UK internet retailer Ocado's share price rise by over 80%. This phenomenon was particularly evident in the US, where technology, healthcare and online service companies saw remarkable price rises. Working from home saw adoption of services like Zoom, whose share price rose by over 650%. Tesla, which for most of the year wasn't even in the S&P 500, saw its share price rise by an even more staggering 760%. It is now the world's 6th largest company by market capitalisation, and its CEO Elon Musk has a paper fortune of over $180bn, making him the world's new 'richest man'. Staying at home for shopping, entertainment and work allowed Amazon, Netflix, and Microsoft to continue to prosper. The largest 6 companies on the S&P 500 now account for 23% of its total worth; fans of index tracking might wish to consider whether that is the sort of diversification they bargained for.

China, which was the first economy to suffer when the outbreak started, has been able to control the spread of the virus (within its own borders at least) and get its economy back on track, supported by cheap oil in particular. By the end of 2020 its market was up 28% for the year. Neighbouring states in Asia were similarly rewarded for tight lockdown controls, most notably South Korea, which gained over 40% in 2020.

At first sight, the UK market was perhaps the global exception. Despite accelerated performance after the vaccine announcement and Brexit settlement, the index of the UK's largest 100 companies was still down 12% for the year. However, this ignores the fact that at the other end of the capitalisation scale, any exposure to smaller companies was a benefit. Smaller companies tend not to be exporters, but rather are reliant on their home markets.

Currency shifts did not harm their prospects and despite COVID, smaller companies in general were ahead by 7% over the year. There was a similar story for smaller companies across Europe and the US too.

Given government bonds did as well as might be expected when the markets fell, it remains surprising that corporates held up so well despite recessionary pressures and the risk of defaults. This meant that when combined with equities the typical Balanced Portfolio would have significantly outperformed both cash and inflation in 2020. At individual fund level there were some remarkable performances from the Marlborough stable, which underline the need for patience and diversification - "he who dares wins", if you will.

| P Class Cell | Performance (%) 2020 | Performance (%) 23/3 to 31/12/2020 |
|---|---|---|
| European Multi-Cap | +25.18 | +77.95 |
| UK Micro-Cap Growth | +21.03 | +83.83 |
| Special Situations | +16.12 | +81.45 |
| Adventurous | +12.67 | +42.23 |
| Balanced | +7.89 | +37.74 |
| Cautious | +3.16 | +24.65 |

*Source: FE Analytics. Mid-mid, income reinvested. Past performance is not a reliable indicator of current or future performance.*

## Looking forward

As for 2021, given the historic political and social upheavals of the past 12 months, making market predictions is certainly no less foolhardy than usual, despite the fashion for 'experts' to do so each January. You will hear much talk about how expensive the US market looks in price earnings terms, and the word 'bubble' is being bandied around where tech stocks in particular are being concerned - Tesla's rise being cited by many as absurd given its sales. Bitcoin's rollercoaster continues, with a 44% rally, a 27% fall and another 17% rally being experienced in the first 7 trading days of 2021.

However, we are not in a dotcom style bubble yet; bond yields are at historic lows and this alone supports current valuations because the risk premium - the gap between expected returns on bonds and equities - makes equities still look remarkably cheap, and especially in the UK. That wide risk premium will be 'fixed' by equities rising and/or bond prices falling (and hence yields rising). Any sign of higher interest rates, or central banks' unwillingness to maintain accommodating policies will sink bond prices significantly, as in 2013's "Taper Tantrum" when bond markets panicked following the US Federal Reserve's indication it might slow its QE programme. While COVID persists, and vaccine rollout still in its early stages, market support is unlikely to be withdrawn for some time to come.

The managers of Marlborough's equity funds can offer interesting insights in their specialist areas. David Walton, Manager of Marlborough European Multi-Cap, says the company management teams he has spoken to remain generally positive on the outlook for 2021, despite the new wave of COVID cases. Mass vaccination programmes and continuing financial support from governments, give him some confidence for an improved picture in 2021, as economies seek to recover lost ground.

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Closer to home, Eustace Santa Barbara and Guy Feld, who co-manage our UK Smaller Companies funds, are also upbeat. They believe that while the trade deal the UK has signed with the European Union may not be perfect, it does bring greater clarity about the future trading relationship. This should, they believe, increase overseas investors' appetite for UK equities, which will be positive for the market.

As ever, we suggest portfolios remain well diversified across asset classes, geographies and companies large and small. Ensure client portfolios remain matched to their risk profiles, and above all stay patient. Remember, it's about time in the market, not timing the market.

**Graham Bentley**
*January 2021*

## Risk Warnings

The following is a summary only of some key items in the Prospectus. Investors in Protected Cell Company (PCC) must have the financial expertise and willingness to accept the risks inherent in this investment. **Capital is at risk. These are the author's views at the time of writing and may be subject to change. These opinions should not be construed as investment advice. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest.** Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our fund of funds range invests for the long-term and may not be appropriate for investors who plan to take money out within five years. The funds will be exposed to stock markets. Stock market prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events. The funds have significant exposure to bonds, the prices of which will be impacted by factors including; changes in interest rates, inflation expectations and perceived credit quality. When interest rates rise, bond values generally fall. This risk is generally greater for longer term bonds and for bonds with higher credit quality. The funds invest in other currencies. Changes in exchange rates will therefore affect the value of your investment. The funds may invest a large part of its assets in other funds for which investment decisions are made independently of the fund. If these investment managers perform poorly, the value of your investment is likely to be adversely affected. Investment in other funds may also lead to duplication of fees and commissions. Shares may not be redeemed otherwise than on any Dealing Day. There will not be any secondary market in the shares of the Company.

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