CHETWOOD
WEALTH MANAGEMENT

DFM HFM GROWTH PORTFOLIO - 2ND QUARTER 2020 JULY 2020

# LEARN FROM THE PAST, PLAN FOR THE FUTURE

Much has been written over the last quarter about the ravaging effect of COVID-19 on the worldwide population and the economy. The market knows that the second quarter GDP figures will be awful, but it is already looking past these figures and hoping that the recovery will significantly boost third and fourth quarter revisions, albeit from an extremely low base.

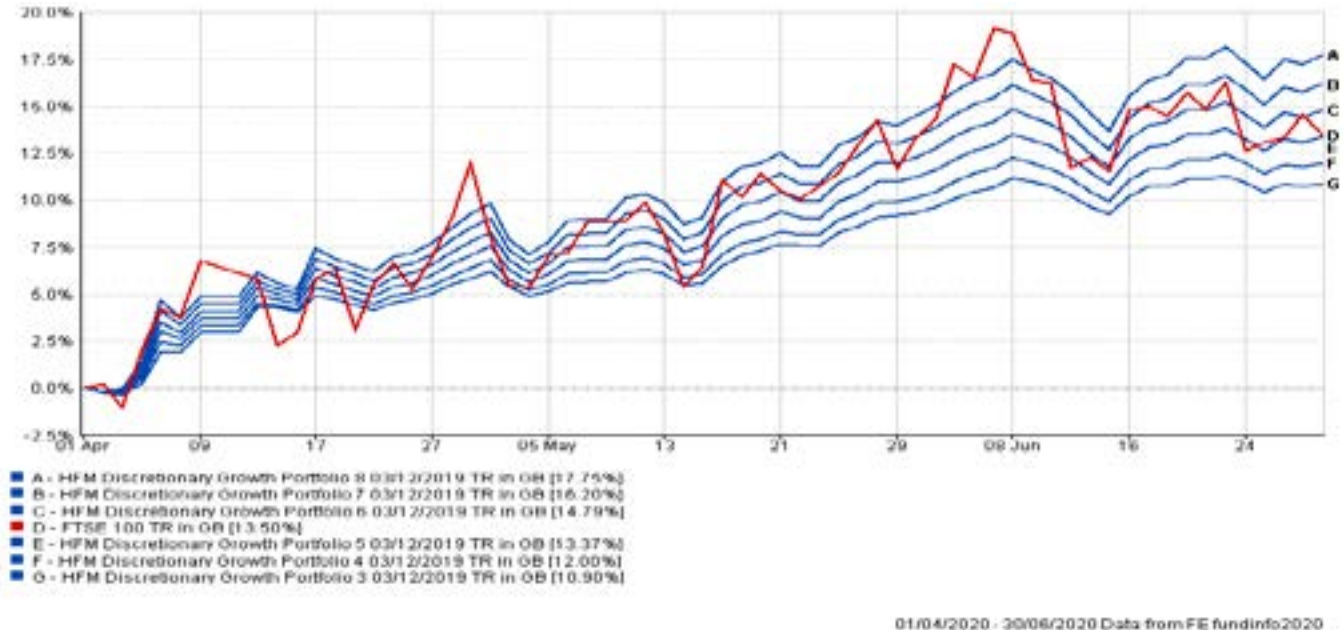
Central Banks have reinforced their mantra to "do whatever it takes" and this should put a baseline under previous market falls. It remains to be seen how the recovery in retail and the services sectors will play out over the summer period. These two sectors were particularly hard hit by COVID and as the UK Government starts to wind down the staff Furlough scheme, and other incentives are withdrawn, we will need to see continued optimism to maintain the current rally in not just the markets, but the economy as well. What will happen next?


The first 100,000 COVID cases took two and a half months to appear, we are now seeing 100,000 cases globally each day. The US is in the midst of an extended first wave of COVID-19, whilst economic growth is recovering. Economic data in May and June has been more encouraging than we expected, and the increased pace of US infections have stopped this economic data driving markets any higher. The spread of infections was a surprise in March and April, it is not a surprise now. We have better therapeutics and treatments for the virus, especially in the developed world and therefore, if the clusters can be managed accordingly, then the economy can recover. Governments and policy makers will continue to provide stimulus as and when required, so we believe there will be points over the summer where we can once again start to increase portfolio equity exposure.

Governments have been able to issue debt to help global stimulus, but the key point here is that this debt has been issued at very low levels of interest. This will allow them to keep their debt payments as low as possible. As we have commented before, ideally central banks would keep down interest rates whilst growth accelerates, to keep the Government repayment burden under control, bringing forth inflation to help to reduce the overall debt burden. This remains our base case for a year or two ahead, as the current job losses and negative GDP remain, for now, deflationary.

Central Banks have brought more debt that Governments have issued, which has allowed yields to fall further and manage the interest payments on this huge debt burden and the underlying reason why the Federal Reserve talked about and then started buying corporate debt, as well as government debt – to keep repayments low.

Should COVID not return with a vengeance, then this monetary stimulus should provide significant support to the markets. Before then, we do expect market volatility to continue through the summer, but we believe we have robust portfolios to see us through this period, that will then allow us to gradually increase equity exposure as things get brighter moving forwards. We will address this in a sensible manner, and should matters deteriorate, as they appear to be in the Americas currently, then we will take appropriate action. For now, our portfolios look well positioned and our three risk profiled portfolios have performed well against the UK FTSE 100 over the second quarter.

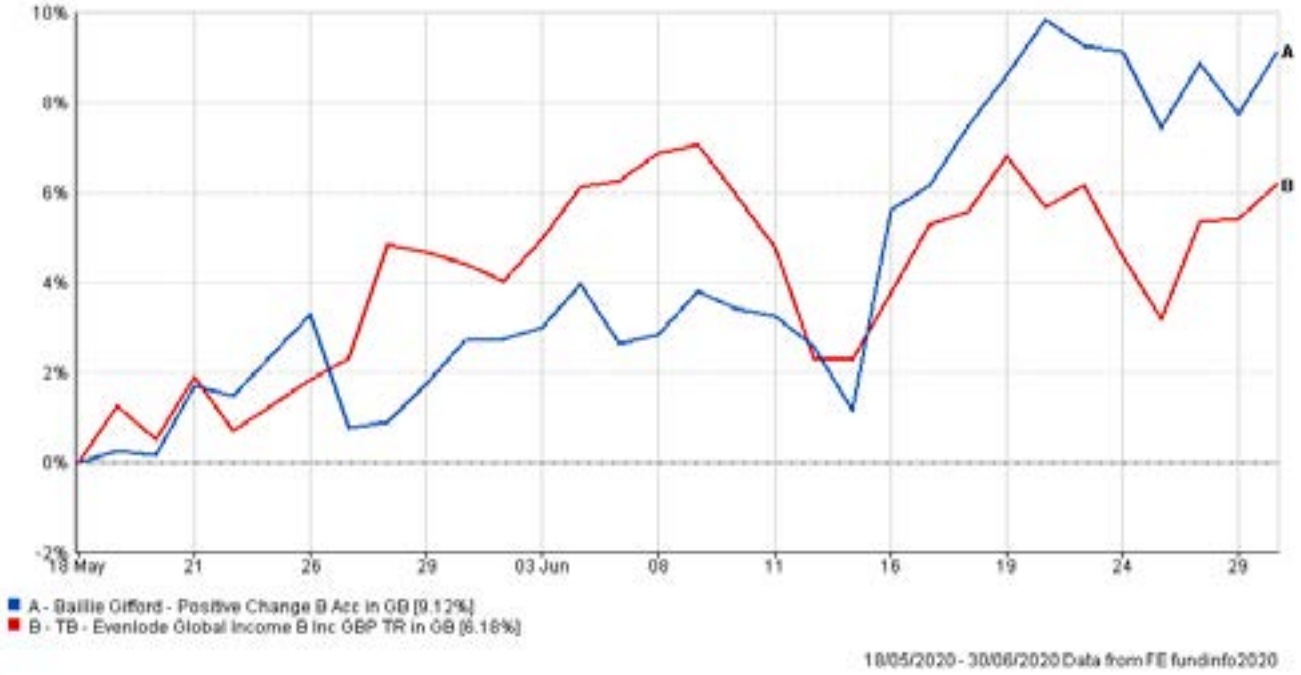



We have to say that we believe the biggest test for investors is coming over the next two-month period and it will be interesting to see if this potential fragile, early bull market is going to survive. To deal with now onwards we have the surge in viral infections in the sunbelt of the US, the upcoming earnings season in Corporate America and the political drama ahead of the Presidential Election in November which is likely to include trade tantrums and China-bashing. The US Federal Reserve (FED) will keep pumping money into the system, along with the European Central Bank's (ECB's) European Recovery fund and the best efforts of the Bank of England and the Bank of Japan to join in. Germanys approach to the European Recovery Fund appears to have changed more recently as they have seen the effect of global liquidity worldwide in supporting the economy through COVID and we are hopeful that individual country negotiations will get the recovery fund approved by all member states.

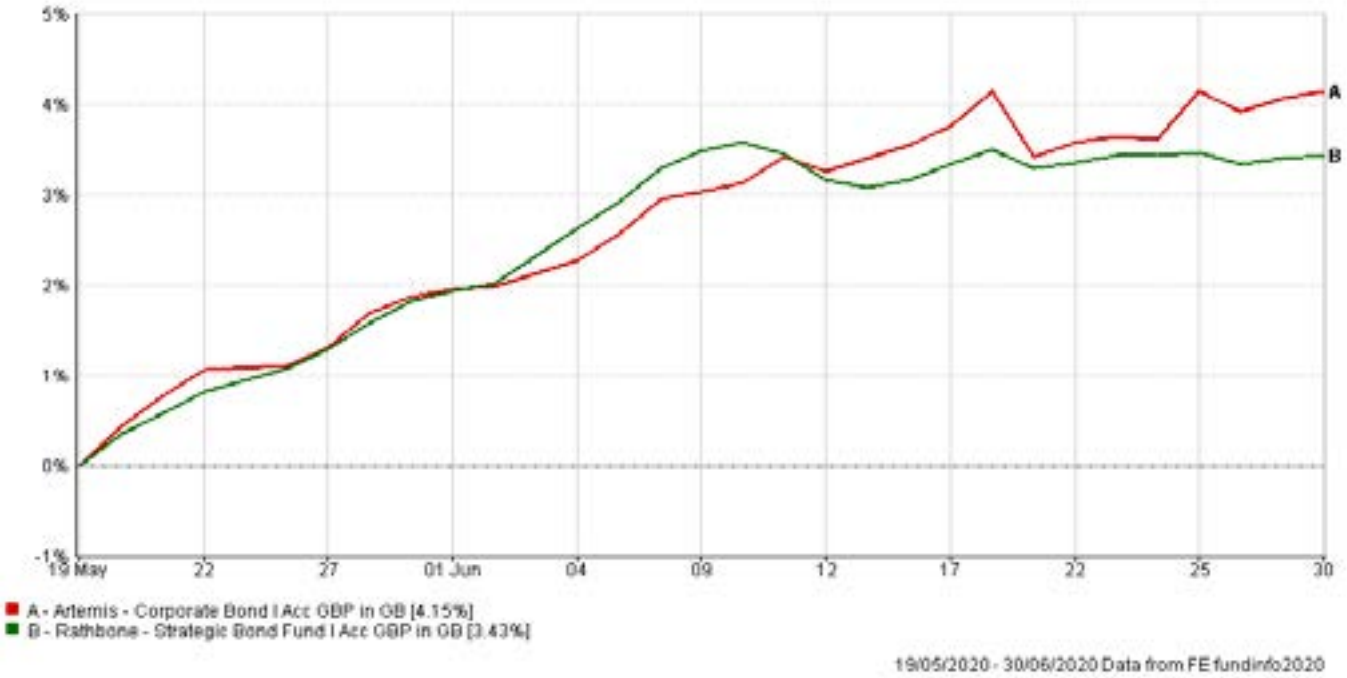
This has the potential to offset the unwinding of Furlough and US unemployment support (remember 60% of recently US unemployed are being paid more from benefits than they were when they were working). Disposable personal income growth remains online with the ten-year average, and this is despite the sharpest recession in living memory. This income is key for expenditure to support the recovery and therefore employment growth is especially important for the latter part of 2020.

**Portfolio changes over the quarter:**

Just before the second quarter began, the narrative of the COVID crisis changed. Central banks, led by the FED, started to pump liquidity into markets, with a speed and scale never seen before. This gave us an opportunity to refocus some of our equity exposure equity exposure over the quarter. We removed Evenlode Global Income to purchase a new fund for the portfolios – Baillie Gifford Positive Change. The Baillie Gifford fund is a concentrated global equity fund, focussing on long term returns to our clients, whilst also contributing towards a more sustainable and inclusive world. The fund invests in areas that the fund management team favour, like technology and healthcare, however they also focus on four key areas – social inclusion and education, environmental and resource needs, healthcare, and quality of life. We had wanted to buy the fund earlier in the year, but the COVID pullback gave us a better entry point.



The FED announced in May that they would start buying corporate debt and, being aware of liquidity issues in this area of the market, we started a holding in Artemis Corporate Bond. The fund manager is very experienced and we felt could not only take advantage of this tailwind from FED support to the credit market, but he could also navigate the liquidity traps and only buy the "sensible" areas of the market. This fund replaced Rathbone Strategic Bond fund.




The first two quarters of 2020 have seen more portfolio changes than normal, but we feel we have added value here by taking advantage of opportunities the market has presented to us and we feel confident that the portfolio is well set for the summer ahead.