KING & SHAXSON
ethical investing

Rebalance Update

November 2020 - IMC

General Overview

USA

There were some concerns over the closeness of the US election result. What markets need is a large and clear mandate to run the country, otherwise we would be heading to stagnation in the power halls of Washington D.C. A lot of the recent moves in US markets have been led by the tech/FAANG companies, so these could well bear the brunt of any uncertainty or new legislation brought in by a new Government. We have ethical issues with the vast majority of these FAANG companies so we avoid investing in these, so we should be isolated should the worst outcome present itself, although wider sentiment may take a hit. However, since the meeting it has become evident we are heading for a divided senate and house, which markets have taken as a positive, as potential sweeping changes will likely not play out, paving the way for the status-quo to prevail.

UK

We have always said that the Brexit deal would go down to the last minute of the last hour before getting resolved, and it's very much looking like that still. We have seen from the last breakdown of talks that both sides were eager to get back to the table and go again to avoid complete breakdown. We feel that as we are very nearly there and a full agreement may be forthcoming, UK listed assets will recover with money ready to come in, just as we saw the opposite previously. UK listed assets have been through every negative note, with many sectors undervalued, we feel there is potential for some upside. On the flipside of this, we also feel moving onto WTO rules may not be as negative as perceived in the tabloids, as it will mean clarity, something businesses haven't had for 4 years!

Talking of negatives….the Bank of England does not seem any closer to taking the base rate in that direction at present. It appears the required mechanisms are not in place amongst other pointers. We may get a bumper Christmas period as many individuals have in fact had a 'good' virus, in terms of maintaining full wage, saving for future consumption or paying down debt. We may see people splash the cash this festive period, but a lot of this will depend on the result of the recent lockdown.

EU

As well as Brexit talks going in the positive direction it appears that there are signs of growth in Europe, particularly around the hugely important and influential car industry. Car sales are back to pre-COVID levels in China and parts of America and these car companies are more optimistic than previously seen. This good news will spread across Europe, and aid other industries. The backstop of the ECB will be there regardless, whilst the EU's €750bn fiscal package moves closer to being delivered across the block.

ROW

As mentioned above it appears to be business as usual in China, with the recovery fully done. This is reflected in cars/luxury goods sales figures, as well as heightened demand for containers to shop products globally. Singles day shopping period figures look like they were another record, further highlighting domestic demand is strong in China. Hong Kong troubles look to have disappeared as China increases its control, whilst Trump being a lame duck, we do not expect relations with China to deteriorate to levels seen throughout his 4 years in office. Given our ethics and the screen we apply not many companies in China appear in our investment sphere.

India's ruling coalition have won the countries first major election in a key state since the outbreak of the virus, supporting the status quo there. We do expect the country to bounce back after the virus, with evidence of this already playing out, with the countries manufacturing PMI showing a jump in October as demand rises.

Global Interest Rates

The committee felt that not many countries have wiggle room as far as using interest rates as a tool is concerned. We have mentioned previously that Central Banks around the world have admitted that they are willing to allow inflation targets to breach any ceiling and overshoot without taking any action to quell this. We see no moves for the time being in interest rates around the world until we see a drastic change in the situation.

November 2020 – Mini IMC following vaccine announcement

Following the market moves at the start of November after a positive announcement on a Pfizer vaccine, the committee reconvened as the rebalance had not yet taken place. Whilst the comments above were still relevant, the below points are a more up to date version of the committee's thoughts:

The positive vaccine news meant we saw a broader market rally, which the committee felt still had some room to play out, with a number of thematic areas such as education and industrials and smaller cap companies in general likely to benefit from this moving forward.

We maintain our stance of being happy to be underweight bond exposure. We did look at some inflation linked bond opportunities, but for the time being we felt we would be overpaying for inflation protection. As with all investments and asset classes we will continue to monitor.

We are happy to use the cash from being underweight bonds to add to investment opportunities in infrastructure. Renewable infrastructure, in our opinion will continue to grow and benefit investors as well as our planet. These investments usually come with long term power agreements and good cash flows to provide regular dividends. We see good options in clean technology, and telecom infrastructure growth such as 5G.

We have held cash at the higher end of our allocation band recently as we saw the possibility of a combination of negative pointers occurring. We now feel this is no longer the case so we will reduce Cash to execute some of the opportunities mentioned above.

Company Information

King & Shaxson Asset Management Limited (Reg. No. 3870667) has its registered office at 1st floor, Cutlers Court, 115 Houndsditch, London, EC3A 7BR. The Company is registered in England and Wales and is part of the PhillipCapital Group. King & Shaxson Asset Management Limited (FCA Reg. No. 823315) is authorised and regulated by the Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN.