



VIEW FROM THE SQUARE

September 2020

Back to Work Stocks

As the third quarter of 2020 draws to a close, we are faced with the daunting prospect of a COVID winter as government measures become more restrictive once again in combatting the virus. For markets, however, it is already the Spring as they tend to look through short term issues and into the future. In March this year, we were nearing the lowest point in the crisis and equity markets were rightly predicting one of the sharpest and most severe recessions in history. The nature of the recession hit certain sectors more than others and, as we emerge, it is clear that a rising tide is not lifting all boats. This month we look at those areas of the markets that have fared well, to those that have done poorly – in considering what next for markets.

Technology is the well documented winner of the COVID crisis. The forced lockdown, followed by tight restrictions globally, has required us all to change the way we live, work, shop and communicate – and the digital world has been our gateway. The NASDAQ (US benchmark technology index) has hit new all-time highs almost on a weekly basis over the summer, but does that mean it will lead going forward? We don't think so. A large part of the increase in the prices of these stocks has been on valuation uplift alone – meaning that whilst many stocks in the sector have seen earnings pick up, not nearly enough to justify such staggeringly high prices. Gravity always catches up – either these technology businesses need to really deliver (on earnings), or these elevated shares prices will mean revert (downwards).

Whilst we are sure that the world will not return to the way it was pre-COVID, technology is not the only beneficiary. The UK Government and others around the world are using the next wave of support to tackle the climate emergency and other key future trends, rather than keep failed companies on life-support – focusing help on those industries and sectors that are not only survivors but “*thrivers*” in the new world. Investors may be underestimating the power of human ingenuity. It is not the job of a handful of technology stocks to pick us up and dust us down – there are many great businesses in the pack that will emerge as those set to thrive next year and beyond. So, we are looking at those regions and sectors that we feel are best placed to fare well as we move into 2021 and beyond, where we do not believe share prices are excessive and opportunities lie. We are minded to avoid significant exposure to deep value areas of the energy market and those that are simply in structural decline, focusing on those cyclical opportunities that we believe will emerge stronger.



CS INVESTMENT
MANAGERS

Important Information

Opinions constitute our judgement as of this date and are subject to change without warning. Neither CS Managers Ltd, CS Investment Managers nor any connected company accepts responsibility for any direct or indirect or consequential loss suffered by you or any other person as a result of your acting, or deciding not to act, in reliance upon any information contained in this document. CS Investment Managers is a trade name of CS Managers Ltd, 43 Charlotte Square, Edinburgh EH2 4HQ. CS Managers Ltd is authorised and regulated by the Financial Conduct Authority. CSFP2 0920

43 Charlotte Square
Edinburgh EH2 4HQ

T. 0131 624 7709
investments@csmanagers.com

www.csmanagers.com