



VIEW FROM THE SQUARE

November 2020

The Great Rotation

November has been the landmark month in the fight against COVID 19. In quick succession Pfizer, Moderna and AstraZeneca all came out with their version of a vaccine – each trumping the former on the practicalities of distribution (storage temperatures). It was the efficacy number that was the standout figure in the announcements, far exceeding expectations and markets have reacted accordingly. We have seen a significant rotation from *stay at home stocks* to *re-opening stocks*.

The US election rallied investor spirits early in the month, cheering a Biden victory. This was tempered by the prospect of a divided Congress (with the Democrats taking the House and the Republicans having control of the Senate). This is not the “blue wave” expected by markets, but good enough – as it means Trump’s corporate tax cuts will stay in place while fiscal stimulus should turn out to be sufficient, rather than excessive. Policymaking should also become less erratic with Biden in the White House, which could reduce the risk premium on equities over time.

Markets didn’t have long to ponder the election, when we had the first release of vaccine results from Pfizer/BioNTech on 9th November. This triggered the start of a significant market rotation from those companies that have fared well during the pandemic (healthcare, technology, etc.) to those that have not (financials, industrials, travel & leisure, etc.). Over the last few years, the market had already been favouring the former (growth style) companies and shunning the latter (value style) companies. COVID extended the divergence to the extreme. The vaccine news triggered an immediate rotation into these deeply unloved and lowly valued sectors. The ensuing follow up vaccine results from Moderna and AstraZeneca compounded this rotation – capping off an exceptional month for value investors.

Throughout the summer, we have been selectively buying funds that have exposure to these sectors, not with a view to predicting a successful vaccine, rather becoming concerned on valuations of some high-flying technology and related *stay at home* beneficiaries. Value investing is fraught with traps (those companies that are in structural decline) and therefore care needs to be made in selecting those managers we believe can identify great business at good discounts to fundamentals, where we believe the next few years could yield strong returns.



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 trading name of CS Managers Ltd, 43 Charlotte Square, Edinburgh EH2 4HQ. CS Managers Ltd is authorised and regulated by the Financial Conduct Authority. CSFP2 1120

43 Charlotte Square
Edinburgh EH2 4HQ

T. 0131 624 7709
investments@csmanagers.com

www.csmanagers.com