



VIEW FROM THE SQUARE

December 2020

Let's Get Active

2020 marked a sea change in the merits of an active approach to investment management – as opposed to passive, which dominated much of the last decade. 2010 - 2020 saw a rapid increase in the use of index funds and passive forms of investment management. The macro backdrop was hugely supportive of this, culminating in zero interest rates in much of the developed world; the net result of which was the lifting of most asset prices. COVID has accelerated the end of that cycle, with 2020 seeing a huge variety of returns across regions, sectors and assets – benefitting an active approach to fund management once again.

We start 2021 plunged back into a new wave of the COVID crisis – but with the (realistic) hope that, in a matter of months, the vaccine will pull us out and we will begin to return to a more *normal* way of life. The market is, of course, looking beyond the next few months and to what lies ahead – as many global markets finished 2020 at all-time highs (led by the US). However, asset prices are (on most metrics) expensive as we enter a new year, with an extraordinary run since the nadir of the crisis last March. Opportunity for returns appears sparse. That said, with the green shoots of recovery comes opportunity and the investment landscape never fails to provide rich hunting grounds for investors prepared to look hard enough – and so we wish to highlight an area of investment opportunity we see faring well in 2021, and beyond: the UK.

Here in the UK, we are at the forefront of vaccine development and roll-out, but also one of the hardest hit countries from the pandemic. At this juncture, our local market looks particularly interesting – the UK market has been unloved for a number of years now, partly due to the cyclical nature of its (FTSE 100) constituents, but also because global investor sentiment to the UK has been cautious (largely due to Brexit uncertainty). 2020 was a particularly poor year for UK equities, relative to global peers, although the fourth quarter of 2020 (triggered by the vaccine announcements) saw that begin to change. We believe the UK market is one of the few fairly priced markets in the developed world, that is likely to fare well on a *re-opening* of the global economy, as investors rotate away from *stay-at-home* stocks. Some easing of the Brexit impasse, with a trade deal being reached, and a strong global recovery should make for a rich hunting ground for UK investors.

Finally, we shall be writing more on inflation in the months ahead as we have portfolios positioned for this to increase in the years ahead, through our holdings in precious metals, inflation linked bonds, infrastructure and property assets.



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