TAM FOCUS PORTFOLIOS

QUARTERLY COMMENTARY : **Q3 2020**

tamfocus

MARKET *Review*

Central banks and governments worldwide continued to support the global economy through fiscal and monetary stimulus packages which sustained the climb in global equities in what is usually a quiet quarter for financial markets.

Despite economies reopening, central banks in the UK and US kept interest rates at historic lows in an attempt to contain the economic fallout from COVID. There was a significant shift in inflation policy by the Federal Reserve (US central bank) in August, which moved to an average inflation target instead of the precise 2% level it had targeted in the past. This means the Fed will allow inflation to run at a pace above 2% for a period of time without raising interest rates to offset this.

As economies continued to reopen and hopes for a COVID vaccine rose, investors favoured riskier assets, which led to a fall in demand for government bonds towards the second half of the quarter. The US dollar also continued on its downward trend which helped sustain the demand for commodities such as gold and silver as alternative safe haven assets.

The end of the quarter saw signs of a second wave of the virus emerging in several countries which threatened to bring economies to a halt once more. These concerns over rising infections and renewed lockdown measures, along with the failure of the US government to agree a second bailout package, weighed on investor sentiment, leading to a sell-off in global equities and an end to the quarter which contrasted with the optimistic start.

PERFORMANCE REVIEW

Focus portfolios performed very well against their respective benchmarks, all comfortably outperforming over the quarter.

	PORTFOLIO %	BENCHMARK %	RELATIVE %
Defensive	0.59	(2.02)[1]	2.61
Cautious	0.91	(2.34)[2]	3.25
Balanced	1.18	(2.60)[3]	3.78
Growth	3.57	(2.98)[4]	6.55
Adventurous	4.92	(3.26)[5]	8.18

Notes on Benchmarks: FTSE All-Share Index + FTSE UK Gilts All Stocks Index in the following proportions: 1) 15% + 85% 2) 35% + 65% 3) 50% + 50% 4) 70% + 30% 5) 85% + 15%
Source: TAM Asset Management International Ltd.

Portfolios benefited from further re-commitment back into the equity market, which continued to rise in Q3. The biggest contributor to performance within equities came from our exposure to precious metals, namely gold and silver, through a fund which blends equities and bullion investments. Global equities outperformed, led by our sustainability focused fund, whilst our currency hedged positions within US and European equities also contributed significantly to performance.

Underperformers came from the non-equity side, namely US government debt and our global bond fund which is exposed to US dollar movements.

PORTFOLIO ACTIVITY

Within equities, a switch was made into a more active version of an existing UK equity fund which follows an indexed approach to investing into the UK market. We moved from mainstream global equities into a global equity fund currently held in the TAM ESG models, which is focused on delivering impact to the environment and society through its investments. We re-introduced a European equity fund, and we subsequently chose to unhedge the currency, adding euro exposure to portfolios.

On the non-equity side, we made reductions to nominal UK and US government debt, rotating into index-linked government debt based on rising inflation expectations. We made a switch within our global bond allocation into a fund we believe represents a more balanced and diversified strategy and finally, we took profits by making gradual reductions to our commodity exposure throughout the quarter on price strength.

OUTLOOK AND STRATEGY

The final quarter of the year looks to be another turbulent one, as markets come to terms with a resurgence of COVID infections and the upcoming US presidential election in November, which will undoubtedly be another source of volatility.

While central banks continue to prop up markets through ultra-low interest rates, the decision to explicitly aim to let inflation overshoot their target, we believe, leads to upside inflation risks, hence our decision to use inflation-linked bonds as a hedge.

Hope remains for a vaccine breakthrough which could provide a boost to markets in the short term, particularly to the economically sensitive sectors which have lagged in the recovery.

Our overall outlook on equities remains constructive, although we will be entering the final quarter with caution. We believe our portfolios are well-positioned to weather the unsettled markets as we have focused on funds investing in high quality companies with strong market power which are able to pass on price increases and which have strong balance sheets, putting them in a better position to withstand any further pressure. We continue to hold well diversified portfolios across regions and asset classes, with cash on the sidelines to put to work as and when we see opportunities arising.

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