bordier | 1844

US still holds longer-term potential

3 August 2020

We presented a detailed overview of our thoughts on markets last month; this note is to provide a brief update on a further change we have made to portfolios following the recent meeting of our Investment Committee.

In terms of our view on equities, we continue to believe that a neutral stance is appropriate, given the delicate balance we currently see between risks and positive drivers. On the one hand there are concerns over a second wave of Covid-19, while other issues such as the impending US election, the fast approaching Brexit deadline and global trade concerns could also weigh heavily on markets. Set against this, investors are being buoyed by the unprecedented levels of stimulus from central banks and by the expectation that interest rates will remain exceptionally low for some time to come. This makes the value of corporate cash flows more valuable, and in turn makes investors willing to pay up for risk assets. This has been dubbed the 'TINA' ('there is no alternative') effect and is particularly strong when real rates of return on risk-free assets are negative, as they are currently. As we explained in our last investment update, this provides some justification for the apparently rich valuations for some markets, and multiples could well move higher still.

Outside of world equity markets, we are ensuring that we hold fixed income and alternative assets that should continue to provide some real diversification benefits and provide protection should we see a short-term correction in share prices.

While we have not elected to change our overall exposure to equities, we have chosen to continue redistributing towards areas that we consider are more likely to lead the world forward as we emerge from the pandemic, and away from regions that face longer-term headwinds. In our last update we explained the rationale for reallocating some of our UK exposure to Asia, and noted that we also had an increased allocation to the US stockmarket in our sights. Following our last Investment Committee meeting, we have now further reduced our UK exposure in favour of an increased commitment to the USA.

There are two key reasons for this reallocation, the first being the relative prospects for the two economies. The US economy entered the Covid-19 crisis in a stronger position than the UK and we believe it will emerge less impacted by it, despite both the evident scale of the pandemic and the short-term impact on the economy as we write. Forecasts suggest that the UK may face a 12% hit to its GDP in 2020, against a figure closer to 5% for the USA. Looking beyond this year, forecasts further suggest that the USA's economic performance will continue to outstrip that of the UK.

The second reason relates to the make-up of the two markets and the opportunity set that this provides. The US market hosts far more of the companies that are likely to be at the cutting edge of taking the world forward in the 'new normal'. Many of these companies are within the technology and healthcare sectors, but there is a further range of companies and sectors with strong and differentiated growth drivers that are simply not present in the FTSE 100 pantheon.

We recognise that the US market is trading at a higher valuation than the UK, however we believe that this premium rating is fully justified.

A further potential benefit of this reallocation is an increase in exposure to the US dollar in portfolios. Although the dollar has been notably weak in the last week or two, we still believe that economic and potential Brexit driven headwinds could weigh on sterling later in the year.

bordier | 1844

Furthermore, the dollar's safe-haven status, which we do not believe to be under any serious or lasting threat, potentially provides an additional level of protection should we see further periods of market stress.

We will of course continue to update you on our investment thoughts and decisions.

Risk warnings

This document is issued and approved by Bordier & Cie (UK) PLC ('Bordier UK'). Incorporated in England No: 1583393, registered address 23 King Street, St James's, London, SW1Y 6QY. The company is authorised and regulated by the Financial Conduct Authority ('FCA').

Bordier UK is a specialist investment manager dedicated to providing portfolio management services. We offer Restricted advice as defined by the FCA, which means that if we make a personal recommendation of an investment solution to you, it will be from Bordier UK's range of investment propositions and will reflect your needs and your approach to risk.

This document is not intended as an offer to acquire or dispose of any security or interest in any security. Potential investors should take their own independent advice to assess the suitability of investments. Whilst every effort has been made to ensure that the information contained in this presentation is correct, the directors of Bordier UK can take no responsibility for any action taken (or not taken) as a result of the matters discussed within it.

CL6047/20200803/1.01