Investment report for Teesside Pension Fund September 2020

Political and economic outlook

The covid-19 pandemic continues to dominate our lives through its impact on the economy, market sentiment and politics as well as the suffering that it brings to day-to-day life. As a reminder when I first wrote about covid in February there had been 90000 cases and 2500 fatalities. By June it was 6.6 million cases and 390000 deaths, today those figures stand at 26 million cases and 870000 deaths. This falling death rate I think demonstrates that the most vulnerable in Society have already been taken by the virus and the treatment of patients has become more effective. There may not be a vaccine for some time to come but medical staff have discovered some effective treatments to aid recovery and many more novel treatments are at phase 3 clinical trials and being fast tracked to be used on the illest patients.

The virus is here for the long term and it is inevitable that a return to normality, albeit in a different form, will slowly evolve. The risks of such a return are high but healthcare systems around the world are better placed to cope with any upsurge in infections than they were previously. Furthermore it is necessary for the economic recovery to begin as well as for society's mental well-being.

There is clearly going to be more home working for those who are able to do so. Interestingly productivity has increased markedly for those unable to go to the office so perversely the impact on the economy should be positive. Many sectors of the economy will continue to be adversely impacted such as transport and catering. Even when the economy recovers fully in the New Normal it is initially likely to be 10 to 15% smaller than it was before the pandemic struck. Essentially I'm more optimistic about the economy than I was 3 months ago because death rates have

fallen considerably but it will be a long haul to get the economy past its previous peak.
The entire world economy is suffering to a greater or lesser extent and even those countries which have handled the pandemic well are suffering sizable declines in GDP. Having said that the UK ,Spain and Mexico have done particularly badly.
My more optimistic feelings about the economy are not reflected in my views of the performance of politicians especially our own. The chaotic performance by the leaders of the United States and quite a number of European countries makes you think that there must be room for improvement sometime. Just when you thought it couldn't get any worse Boris Johnson's attempt that being a useful politician crumbles after u-turn follows u-turn. We shouldn't be surprised given Boris's previous form In ministerial roles and elsewhere.
The only member of the government who seems to have any credibility is the Chancellor who continues to be a safe pair of hands. The rest of the government is pretty poor quality, their only saving grace is that they don't go around murdering people.
At a time when the world needs first class leadership we are led by the most mediocre politicians I can remember. What could go wrong?

Markets

My stock market adage last time was not to fight the Fed and this is usually pretty sound advice . This time I will try “sell in May and go away come again on St. Leger’s day”. It's not a very reliable adage, in fact it generally costs you money, buy-and-hold is a better course to follow. The power of governments’ response to the pandemic has buoyed stock markets to an exceptional extent in the face of poor economic performance. The United States, Japan and Germany are near pre-pandemic highs. The UK is off 20% and Hong Kong off around 15%. This is pretty impressive given the large falls in GDP.

The question is should we buy, hold or sell on St Leger's Day? It's easy to argue we should sell because the stock market reaction has not matched corporate or economic performance and government firepower is running out. That is until you look at the other investment opportunities open to you.

At present interest rate levels fixed interest markets have little investment merit.

The property market is filled with uncertainty and new ways of working and living will shape that market in a very different way which the existing stock will find difficult to accommodate.

At near-zero interest rates cash has no merit as an investment destination.

Alternative investments will provide opportunities as the universe of investment ideas remains very large and fund managers will search to find solutions to fit investors' preferences.

Portfolio recommendations

We remain substantially overweight our benchmark in equities, 20% overweight overseas equities and 5% overweight UK equities. It is therefore very difficult to buy more equities on St Leger's day. However it is very difficult to justify investment in other quoted markets such as bonds and It will be difficult to find the appropriate property investments. Cash is also unattractive but the 12% holding provides some comfort In the eventuality of falling markets.

The alternative investment markets provide the only viable alternative to quoted stock markets. As I've said previously realistically it will take a long time to find suitable investment opportunities despite Borders to Coast's resources. The Investment team has done a great job in building the portfolio up to now however, against our current benchmark, the overweight in quoted equities will be with us far into the future. The high level of uncertainty caused by the unknown impact of the pandemic makes portfolio recommendations more difficult than usual. It's probably best to keep it simple and invest where you see value. Change for change sake is probably not a good route to follow right now.

Peter Moon

4 September 2020