Market Update

4th June 2020

SQUARE MILE
INVESTMENT SERVICES

In what way does the current crisis represent a watershed within society and how does this influence the investment opportunities that might be of interest?

Travel, retailers and hospitality have been among the worst affected sectors within the economy during this pandemic. These sectors also tend to employ large workforces on relatively modest wages and this crisis is therefore likely to have a far-reaching societal impact. Although its catalyst lies in racial tensions, the current civil unrest which is taking place across the US is a manifestation of this, with many of those taking to the streets having already been economically marginalised, even before the coronavirus outbreak created an additional layer of financial challenges. While the Republicans, led by President Trump, may not seem overly concerned by this state of affairs, should Joe Biden succeed in being elected we could see some profound changes as a consequence. This will represent a watershed particularly if political events follow the course that we suspect they might. This in turn could have pronounced implications for investment.

Are considerations such as sustainability likely to become a focus for mainstream managed portfolios in the future?

The broader societal challenges that have been highlighted by the pandemic and themes such as sustainability are very inter-related. Should he be elected in the US, Biden is likely to be much more focussed on addressing societal imbalances and much more concerned about the environment. In the UK, the government is planning a new strategy aimed at creating a greener society, encouraging greater engagement and enabling a more equitable distribution of wealth across the population. At the same time, it is aiming to tackle some of the wider challenges which pose a great threat to us all.

A combination of these factors could throw up a number of interesting investment opportunities and this is something which we are monitoring closely. Even before this crisis, wider demand was beginning to grow for investments that focus on sustainability and what we have seen over the last few months could well accelerate that.

Square Mile's Responsible Future portfolio was launched a month before the UK population was placed under lockdown. How has it fared since and how is the strategy set to meet future challenges?

The Square Mile Responsible Future portfolio comprises a significant number of funds that have been awarded a Square Mile Responsible rating. This rating is given to funds which explicitly aim to have a positive impact on society or the environment, as well as offer attractive returns. They fall into one of three categories: Sustainability, Impact and Exclusion. The portfolio also naturally scores well on Environmental, Social and Governance (ESG) criteria, as measured by Square Mile's grading of these factors.

The portfolio was launched in early February this year, just before the coronavirus pandemic led to the global economic shutdown. In reaction to this event, global stock markets fell heavily between February and March, which clearly created considerable headwinds for the portfolio. Nonetheless, it held up well in what was a very challenging environment. For example, from launch until the bottom of the market in late March, the portfolio was down around 16%, which compares well to the UK stock market which fell over 30%. The portfolio has since risen strongly, and as at the end of May much of that loss has been recovered.

The portfolio was defensively positioned going into the crisis which helped performance. Furthermore, many of the underlying funds performed well, not least because they naturally had limited exposure to commodity companies – energy stocks, for example, fell heavily as a result of the dramatic drop in the oil price. Finally, the lack of emerging market exposure and a bias towards developed markets has been beneficial as many emerging market assets fell sharply during the sell-off.

We believe that responsible investing will be an area that continues to gain investor attention. This is not only due to the appeal it has to younger generations, but also because of a wider acceptance of view that responsible investing does not necessarily lead to lower returns. If anything, in our opinion, a focus on the factors which underly responsible investing could help drive superior returns.

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