Manager's Quarterly Update

Q3 2020

www.alphabetapartners.co.uk

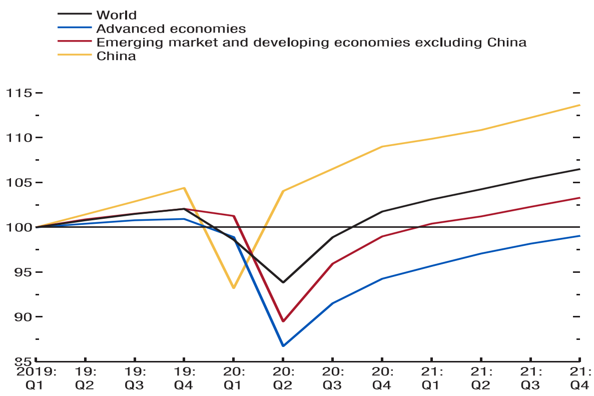
	Q3 2020	Return	Level
Equity	MSCI AW Index	8.13%	565
	S&P 500 Index	8.93%	3363
	MSCI EM Index	9.56%	1082
	MSCI CH Index	11.96%	97
	FTSE 100 Index	-4.02%	5866
Debt	BBARC GA Index	2.66%	541
	US G2Y Index*	0.15%	0.13%
	US G10Y Index*	0.26%	0.69%
	US G30Y Index*	-1.28%	1.45%
Infrastructure	S&P GI Index	1.58%	2,226

What an incredible year it has been so far! 2020 has been littered with risk events, volatility shocks forcing the hands of central banks and governments alike, and challenged the notion of the "stock market is an economy's barometer". It took more than 8 years for the developed world to see some sort of monetary policy normality following the Global Financial Crisis (GFC). With the magnitude of the Covid-19 response, it will take a lot longer. Financial assets, be they equities or bonds, have shown strong correlation to central bank liquidity and the willingness of the central banks to directly intervene in markets. In the short term this has provided a floor to stock and bond prices but of course weaning these markets off the central bank largesse will be a significant challenge.

Quarter three was mostly positive for risk assets with markets grinding higher, for most of the period. US equities registered new highs during the quarter. This however was interrupted by a correction towards the end of the 3-month period. Markets saw profit-taking behaviour in the last month of the quarter due to forthcoming US elections risk and equities were in a technically overbought position. The small pull-back in prices was healthy for markets.

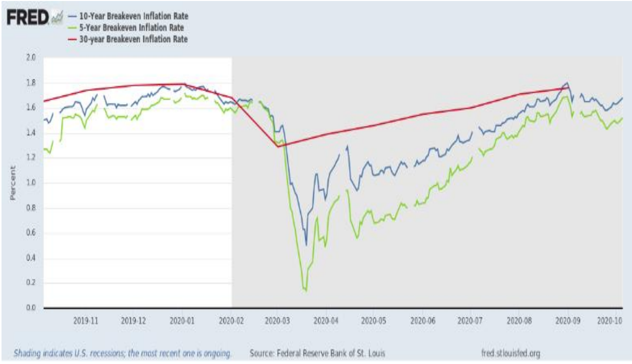
Whilst economic data show signs of a strong rebound across the board, we must remember that growth data is relative. In absolute terms, economies are still struggling and there is no definite virus cure as yet in sight. The impacts on certain sectors, especially leisure, hospitality, and aviation are acute and worsening with conjecture around a possible new lockdown. Whilst governments may step in to support these sectors, we detect consumer behaviour is changing and many pre-Covid norms are unlikely to be the same in future. It will take years for the impact of Coronavirus to be washed from our collective memory. At the same time, the new normal is encouraging alternative working practices. Business, for example, can access a global workforce by adopting digital capabilities and many hitherto fixed costs have become more variable in nature.

According to the IMF's forecast, World GDP is expected to recover to 2019 levels during Q4 2020. Developed economies are expected to recover by the end of 2021.



Source: IMF staff estimates.

This resonates with Jerome Powell, the Federal Reserve Chairman, comments in his recent testimony. The Fed, in a major policy shift, has also changed their inflation targeting methodology. The Fed will now target an "average" inflation of 2%. Recent comments suggest the Fed anticipates and is willing to allow inflation to "run hot". This could of course provide an inflationary shock to the system. We discussed this topic in some depth in previous updates.



Source: Federal Reserve Bank)

The market's current expectation of "break-even inflation" is around 1.68% in the medium term. This, of course changes over time and a clear upward trajectory can be seen in the United States since the Covid-19 crisis began. Inflation expectations vary across developed markets with Europe's current reading alarmingly low. However, once the Covid-19 episode is over, policy makers must then deal with economic and financial impacts rather than health and lockdowns and merely keeping their economies running. Only then will we begin seeing a clearer picture.

The global Purchasing Managers Indices (PMI) readings have continued showing signs of recovery within developed economies registering positive readings throughout the quarter. This has also led to the stabilisation in base commodity prices with copper and oil showing low volatility during the quarter. All positive leading indicators.

Global PMI output by broad sector

Most of the S&P 500 index constituent members have reported earnings so far this year. These reports have been broadly encouraging. Approximately 80% of S&P 500 companies either beat or have met the earnings estimates over the last 7 years. Earnings estimates for this year are expected to be around $113, which is modest, but with a sharp increase in 2021 to around $164. We expect markets to grind higher once US elections are concluded and another fiscal support package is announced by the US government.

In the absence of an unforeseen negative event, this should propel risk assets higher. We also expect a further boost to equities from higher inflation and rotation out of treasuries.

The Alpha Beta Investment Committee continues to analyse other possible risk events such as Brexit and the likelihood of a workable trade deal, US-China relations, and a possible flare-up in the South China Sea. We also expect a workable vaccine should be available in the next 6 months given the progress of phase 3 trials across the globe. Clearly a very big positive for markets.

Alpha Beta portfolios have performed well during the period, we remain vigilant to risks that lie ahead but retain confidence an economic market related recovery is firmly underway.

Thank you for your support and please do get in touch if you have feedback or questions. We would like to hear from you.

Our portfolio Returns:

Performance %	Year to Date	Quarter to Date	Month to Date
AB1	1.63	0.59	0.27
AB2	1.17	0.78	0.20
AB3	0.63	1.01	0.16
AB4	0.06	1.39	0.12
AB5	-0.24	1.71	-0.13
AB6	-1.18	1.70	-0.48

(Source: ABP and Morningstar, for Indexed funds solution, Data 30/09/2020)

Asim Javed, CFA
Senior Investment Manager

Please contact:
Andrew Thompson or Geoff Brooks
on 0208 059 0250,

Alpha Beta Partners Ltd.
4 Lombard Street, London EC3V 9AA
info@alphabetapartners.co.uk I 020 8059 0250

Alpha Beta
PARTNERS

www.alphabetapartners.co.uk