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ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

2020 ended on a strong note as the equity market performances below show. The strong rise was due to positive news on the coronavirus vaccines, bringing hope that 2021 will see a decent economic recovery, notwithstanding the worsening current situation. Bond market performances, as measured by ten year government bonds, were mixed, although, post year end, it is interesting to note that the ten year US Treasury bond has seen its yield rise to over 1%. In the foreign exchange markets, sterling was generally stronger and, in the commodity markets, oil showed a sharp recovery in the expectation of an economic vaccine led recovery this year.

The tables below detail relevant movements in markets :

International Equities 30.09.20 - 31.12.20

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	+14.2	+16.3	+22.9	+14.2
Finland	+5.2	+3.8	+9.8	+5.2
France	+14.5	+13.0	+19.5	+14.5
Germany	+7.0	+5.6	+11.6	+7.0
Hong Kong, China	+17.1	+10.7	+17.0	+12.2
Italy	+16.6	+15.1	+21.7	+16.6
Japan	+12.3	+8.5	+14.8	+9.4
Netherlands	+14.8	+13.3	+19.8	+14.8
Spain	+22.0	+20.4	+27.3	+22.0
Switzerland	+4.4	+2.6	+8.5	+3.9
UK	+11.1	+11.1	+17.5	+12.6
USA	+12.9	+6.8	+12.9	+8.2
All World Europe ex UK	+10.7	+9.4	+15.7	+10.9
All World Asia Pacific ex Japan	+16.4	+13.2	+19.7	+14.7
All World Asia Pacific	+15.0	+11.5	+17.9	+13.0
All World Latin America	+23.5	+27.7	+35.0	+29.4
All World All Emerging Markets	+15.1	+11.3	+17.6	+12.7
All World	+12.9	+8.5	+14.8	+10.0

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : N/C%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

Currency	30.09.20	31.12.20
Sterling	0.23	0.19
US Dollar	0.70	0.91
Yen	0.01	0.01
Germany (Euro)	-0.52	-0.58

Sterling’s performance during the quarter ending 31.12.20 (%)

Currency	Quarter Ending 31.12.20
US Dollar	+5.8
Canadian Dollar	+1.1
Yen	+3.5
Euro	+1.5
Swiss Franc	+1.6
Australian Dollar	-1.5

Other currency movements during the quarter ending 31.12.20 (%)

Currency	Quarter Ending 31.12.20
US Dollar / Canadian Dollar	-4.4
US Dollar / Yen	-2.2
US Dollar / Euro	-4.0
Swiss Franc / Euro	-0.2
Euro / Yen	+1.9

Significant Commodities (US dollar terms) 30.09.20 31.12.20 (%)

Currency	Quarter Ending 31.12.20
Oil	+23.2
Gold	+0.2

PERFORMANCE DURING 2020

International Equities 31.12.19 - 31.12.20

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	+1.2	+7.6	+11.1	+1.9
Finland	+10.5	+16.8	+20.5	+10.5
France	-4.1	+1.3	+4.5	-4.1
Germany	+3.5	+9.3	+12.8	+3.5
Hong Kong, China	+7.0	+4.2	+7.5	-1.4
Italy	-5.0	+0.3	+3.5	-5.0
Japan	+8.9	+11.1	+14.6	+5.2
Netherlands	+16.2	+22.7	+26.6	+16.2
Spain	-12.2	-7.2	-4.3	-12.2
Switzerland	+3.3	+9.7	+13.2	+3.9
UK	-11.7	-11.7	-8.9	-16.4
USA	+20.8	+17.1	+20.8	+10.9
All World Europe ex UK	+2.2	+7.8	+11.3	+2.1
All World Asia Pacific ex Japan	+19.8	+19.4	+23.2	+13.0
All World Asia Pacific	+15.8	+16.4	+20.1	+10.2
All World Latin America	+2.5	-17.0	-14.4	-21.4
All World All Emerging	+17.4	+11.9	+15.5	+6.0
All World	+14.4	+13.0	+16.6	+7.0

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : +8.3%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

Currency	31.12.19	31.12.20
Sterling	0.81	0.19
US Dollar	1.92	0.91
Yen	-0.03	0.01
Germany (Euro)	-0.19	-0.58

Sterling's performance during the year ending 31.12.20 (%)

Currency	Year Ending 31.12.20
US Dollar	+3.1
Canadian Dollar	+1.0
Yen	-2.0
Euro	-5.3
Swiss Franc	-5.7
Australian Dollar	-5.9

Other currency movements during the year ending 31.12.20 (%)

Currency	Year Ending 31.12.20
US Dollar / Canadian Dollar	-1.9
US Dollar / Yen	-5.0
US Dollar / Euro	-8.1
Swiss Franc / Euro	+0.3
Euro / Yen	+3.4

Significant Commodities (US dollar terms) 31.12.19 - 31.12.20 (%)

Currency	Year Ending 31.12.20
Oil	-21.7
Gold	+24.6

MARKETS

As news of successful Covid-19 vaccine trials emerged towards the end of the year, international equity markets responded positively on the basis that a successful vaccination programme in 2021 would enable economic activity to make at least a partial recovery, thus helping companies to restore some of their lost earnings in 2020. This was helpful to so called value stocks, many of which had been battered in the stock market, whilst growth stocks performed very well in many cases.

For the final quarter of 2020, the FTSE All World Index returned +12.9% in local currency terms, +8.5% in sterling terms, +14.8% in US dollar terms and +10.0% in euro terms. Looking at local currency returns firstly, the outstanding performers in relative terms were the FTSE All World Latin America Index (+23.5%), the FTSE All World Asia Pacific ex Japan Index (+16.4%), the FTSE All World All Emerging Markets Index (+15.1%) and the FTSE Australia Index (+14.2%). In Europe, Spain was a notable performer, with the FTSE All World Spain Index returning +22.0%. Underperformers, although still returning very strong performances, were the FTSE All World Europe ex UK Index (+10.7%) and the FTSE All World UK Index (+11.1%). The FTSE USA Index matched the performance of the FTSE All World Index (+12.9%). However, mainly because of the weakness of the US dollar, the sterling adjusted returns looked different, although still very strong. The FTSE All World Latin America Index remained by far the strongest performer (+27.7%) and there was an excellent performance from the FTSE Australia Index (+16.3%). The FTSE All World Asia Pacific ex Japan Index (+13.2%) and the FTSE All World All Emerging Markets Index (+11.3%) also continued to perform relatively well. The FTSE All World UK Index (+11.1%) and the FTSE All World Europe ex UK Index (+9.4%) returned above average performances, whilst the FTSE All World USA Index (+6.8%) moved to a below average but still extremely respectable return.

Moving to looking at the international bond markets as measured by ten year government benchmark bonds, the UK gilt saw its gross redemption yield fall by 4 basis points to 0.19% and the German Bund by 6 basis points to -0.58%. On the other hand, the US Treasury bond saw its gross redemption yield rise by 21 basis points to 0.91%. The Japanese Government Bond yield was unchanged at 0.01%.

In the foreign exchange markets, sterling strengthened against all currencies in our table except the Australian dollar, against which it fell by 1.5%. Against a weak US dollar it rose by 5.8%, against the yen by 3.5%, against the Swiss Franc by 1.6%, against the euro by 1.5% and against the Canadian dollar by 1.1%.

In the commodity markets, news on the vaccine, and its implications for a recovery in the world economy, saw oil, as measured by Brent crude, rise by 23.2%.

If we now turn to look at the returns for calendar 2020, the FTSE All World Index returned +14.4% in local currency terms, +13.0% in sterling terms, +16.6% in US dollar terms and +7.0% in euro terms. Looking at local currency returns firstly, we note an outstanding performance by the USA, with the FTSE All World USA Index returning +20.8%. Above average returns were seen in the FTSE All World Asia Pacific ex Japan Index (+19.8%) and the FTSE All World All Emerging Markets Index (+17.4%). On the other hand, the FTSE All World UK Index (-11.7%) was a notable underperformer, as were (although still showing positive returns) the FTSE All World Australia Index (+1.2%), the FTSE All World Europe ex UK Index (+2.2%) and the FTSE All World Latin America Index (+2.5%). Currency movements made a difference during the year. The FTSE All World Latin America Index (-17.0%) performed very badly in sterling terms whilst, on the other hand, the strength of the Australian dollar raised the return on the FTSE All World Australia Index to +7.6% and on the FTSE All World Europe ex UK Index to +7.8%. The outstanding area in sterling terms was the FTSE All World Asia Pacific ex Japan Index, +19.4%.

Movements over the year in the international bond markets were striking. Taking the ten year government bonds as a benchmark, the gross redemption yield on the UK government bond fell by 62 basis points to 0.19%, on the US Treasury bond by 101 basis points to 0.91% and on the German Bund by 39 basis points to -0.58%. The gross redemption yield on the Japanese Government Bond rose by 4 basis points to 0.01%.

In the foreign exchange markets, sterling rose by 3.1% against the US dollar and by 1.0% against the Canadian dollar. On the other hand, it fell by 5.9% against the Australian dollar, by 5.7% against the Swiss Franc, by 5.3% against the euro and by 2.0% against the yen.

In the commodity markets, reflecting the shock to economic activity caused by the pandemic, oil, as measured by Brent crude, fell by 21.7%, whilst gold, a store of value in uncertain times, rose by 24.6%.

ECONOMICS

Two overused words, especially in the sporting arena, and one particularly thinks of football here, are “unbelievable” and “amazing”, and they are used so often that their original meaning has become devalued. However, these two adjectives do justice to the performance of markets this year when set against the severe recession into which the coronavirus pandemic has plunged the world economy. Many people may find it hard to believe that the world stock market has ended the year higher than it started, especially considering the startling fall in the last week in February through to the third week in March.

Of course, it is understandable that some investors are heavily influenced by the present and, let’s face it, those four weeks were very scary times, but, as always, it paid to stand back, assess the situation and look forward. A prerequisite of this is that one should be a long term investor. Those in for the short term, perhaps influenced by strong stock markets beforehand, such as during 2019, or those who had geared up, or perhaps had offered up shares as collateral, were never going to be able to withstand the precipitous falls in markets at that time. Perhaps only then did they realise that shares were not a suitable investment for them. Those with a longer term perspective could take a more nuanced approach without the pressure of having to realise assets at fire sale prices. With the pandemic occurring so quickly, markets were not able to look forward and discount this unforeseen event, hence the sudden and sharp collapse in share prices. On fundamental issues such as, say, the prospect of rising inflation and interest rates, investors, if they believe that these are going to be an issue, can take precautionary actions with their portfolios. But, even as this scary adjustment was occurring, the outlines of a stock market recovery were discernible. Firstly, the technical position was bound to improve as forced sellers were exhausted. Secondly, and more importantly, the official reaction was crystallising in the form of aggressive monetary and fiscal policy. The lessons of the Global Financial Crisis about twelve years previously had been learned and the authorities swung into action. It was vital to keep liquidity flowing in the system and the central banks did what they could to ensure this happened. Support for individuals and businesses, who had been badly affected by the shutdown, whether in the service or manufacturing sector, was announced on a massive scale and this had to be funded by public borrowing on an unprecedented scale, so most central banks saw an enormous increase in the size of their balance sheets as they purchased an increasingly wide range of assets, mainly, though, government bonds. Central banks cannot generally finance governments directly, so they were active purchasers in the secondary market, as buyers in the primary market know that they could safely buy, say, government bonds in the knowledge that they could sell them on. With central banks buying bonds in such large quantities, yields were suppressed and all semblance of price signalling vanished. On the monetary and fiscal fronts, central banks and governments were sparing no effort to support their economies. From the policy utterances of central banks, investors could be sure that interest rates were going to remain ultra low or negative and that gave them a very important signal in terms of organising their investment policy. If yield was important to them and quality assets were what they wanted, then they were not going to obtain it from good quality bonds. In fact, it would continue to be equities which provided a better yield, even after dividend cuts from many companies, notably in the UK and Europe. Cash, of course, was even worse in terms of yield. The collapse in many companies' earnings meant that the "e" in the price/earnings ratio was falling or even turning negative and the "p" may not have fallen as far. In some companies which benefited from the pandemic, and technology comes to mind, the "e" was rising but the "p" was increasing even faster. So, valuations have risen to levels which have made some investors cautious. The forward price/earnings ratio on the S & P 500 Index is somewhere around 23. But the flip side of this is that, if investors believe that interest rates are going to remain very low, or negative in some cases, for the foreseeable future, the higher than normal valuations can be justified. In all the main markets, dividend yields are above the relevant ten year government bond yield. Looking at it another way, the earnings yield on, say, the S & P 500 Index at around 4.3% compares with a ten year US Treasury bond yield of about 1.1% (it has risen since the year end). If one says that a share price should represent the net present value of future earnings, then the very low risk free rate means that those earnings are discounted by very little. This situation is a nightmare for pension funds and for companies which have to top up their schemes because of shortfalls against their liabilities but, for investors, it can add some intellectual coherence and rationale to their policies, especially in relation to equities.

So, from 23rd March, the low point in the international equity markets' fortunes, the recovery began to take markets beyond their 1st January 2020 starting point and, as we start 2021, investors are mostly bullish on equities, their bullishness being highlighted by positive news items on the vaccines which were announced from November. The news on the vaccines had another effect on equity markets. Value stocks, and there are many of those in the UK stock market, which had been horribly out of favour relative to growth stocks and became even more so as the pandemic took hold, suddenly reversed their trend, although many were still much lower than when the year started. The thinking behind this reversal in fortune was that the vaccine would enable economic activity to increase which would help the profitability of companies which had suffered so badly in 2020. Growth stocks which had benefited in the pandemic, such as some technology stocks, could still see their earnings grow, but those of value stocks would increase faster, albeit from a much lower or negative base. Dividends, often an attraction of value stocks, might start to be partially restored. Looking further ahead, faster economic growth could cause an increase in interest rates which might make low yielding or nil yielding growth stocks less attractive relative to higher yielding value stocks where the yield might now be considered more secure. This is the theory with many assumptions being made, but it is what could drive the relative attraction of growth and value stocks.

This leads on to the performances of different equity markets in 2020 where, as our table at the front of this review shows, there were some extraordinary divergences which informed relative portfolio outcomes. Taking sterling adjusted performances, we can see how important it was (mandate considerations permitting) to hold a significant weighting in the USA and for sterling based investors to avoid home bias. The difference in performance, measured by the index, was a startling 28.8%. No major market performed nearly as badly as that of the UK and only the Latin American region, where we would typically only have a modest weighting, performed worse, although it is worth noting that it had a spectacularly good final quarter of 2020. The good performance of the Asian markets should also be noted. Whilst Brexit has been cited as a reason for the UK equity markets' underperformance, the preponderance of value stocks dragged down the performance, whilst the high number of growth stocks in the USA and Asia benefited their markets. However, it is not set in stone that the UK market should underperform and, although 2021 is only a few days old, it is interesting to see that the UK market has got off to a strong start with value stocks like banks and oils to the fore.

Even though things look calmer in markets now than they did in the turbulent days of late February and in the first three weeks of March, it is important not to be complacent, with many markets at record high levels. We emphasised in our memorandum to our clients at the height of the crisis the importance of looking ahead. That remains very true now, even to those like ourselves who believe equities to be the preferred asset class. The sums of money being injected into economies by governments and the expansion in the size of central banks' balance sheets are so mind boggling that figures have become meaningless but it is, nevertheless, worth showing how the size of central banks' balance sheets have ballooned in 2020. If we look at the Federal Reserve in the USA, the balance sheet has expanded by approximately 80% to US$7.3 trillion, that of the ECB by approximately 60% to the equivalent of US$8.5 billion and the Bank of Japan by approximately 30% to the equivalent of US$6.8 trillion. A notable exception is the People's Bank of China, with a much more modest rise of approximately 14% to the equivalent of US$5.8 trillion. The growth represents the amount of assets which central banks have acquired from the private sector during 2020, financed by the creation of electronic money. Some will ask why, for as long as the economic crisis lasts, central banks cannot keep effectively financing governments' borrowing. We need to remind ourselves here that central banks cannot directly finance governments, but it is a very fine difference between that and buying assets, mainly government bonds, from the private sector in the secondary market. Whilst the central banks' balance sheets have expanded so much through the purchase of assets from the private sector, the banks' reserves with the central banks have obviously increased. Whilst businesses and individuals have been nervous about committing themselves during the crisis because of the sheer uncertainty, this situation will not continue for ever. When some measure of confidence returns, money parked at the central banks will circulate more quickly and the velocity of circulation will rise. At present, central banks are often lamenting the fact that inflation is below their target levels so there is little constraint on their willingness to follow an ever more expansionary monetary policy. However, one has to remember that, whilst demand collapsed during government induced lockdowns, supply was also affected. Whilst some of that can be brought back quickly, some cannot, and it is possible to see supply bottlenecks occurring which will lead to price rises. So, at some stage, central banks will want to try to control inflation on the upside rather than the downside, as at present. That will mean increasing interest rates, either directly by changing their short term official rates or by reducing their balance sheets, which means selling back to the private sector assets which they have purchased, effectively increasing the supply of bonds on the market which will raise interest rates and most probably cause them losses. The extent of monetary activism to counteract the pandemic from the time of the Global Financial Crisis (GFC) twelve years ago makes it feel that current monetary policy has an air of permanence about it, but it would be complacent to believe that inflation has been tamed for ever. The danger is that central banks could face heavy losses in a rising interest environment which would be one of the obvious policy tools to try to curb inflation, the other being fiscal policy. Rising interest rates will cause other problems. Many companies and businesses have been able to keep going during the pandemic induced recession because interest servicing costs on debt have been so low. The same has been true in a different way for governments. With governments having had to borrow so much to keep their economies afloat, outstanding public debt as a percentage of GDP has rocketed in most countries. Debt servicing has been possible because interest rates are so low but, as and when interest rates rise towards what we might have considered to be normal levels, the burden on their budgets will be severe and, in some cases, overwhelming. One would expect increasing levels of default. It is a Catch 22 situation for central banks and governments. If central banks start to raise interest rates, which they will want to do at some stage, they risk their own balance sheets because of potential losses on assets sold as part of a monetary policy tightening. The risk of loan defaults will rise with knock on effects for banks. Central banks can create money which, in one way or another, may seem to protect them from losses, but such moves damage a currency's credibility as we see in countries like Zimbabwe and Venezuela. For governments, facing enormous holes in their public finances, the temptation must be to raise taxes. But these are not normal times. With confidence so low for businesses and many individuals, tax increases are the last thing needed if confidence to spend and invest is to be sparked.

However, because of the very high and rising levels of outstanding public debt in many countries, one risk is of a loss of confidence in a major currency if a country or region's situation is considered to be so dire that it is unsustainable. The currency movements in our table over 2020 are not extreme and it is easy to feel that all of the major currencies are in this together, so bad is the absolute position at present, but the relative position is not an issue as they are all in the same boat. That, we feel is a complacent view and is a potential danger for the future.

In this respect, the eurozone is particularly interesting. As the table at the beginning of this review shows, the euro performed strongly in 2020. However, the overall level of government debt as a percentage of GDP is around 100% in the eurozone with countries such as Greece, Italy, Portugal, Belgium, France, Cyprus and Spain well over that level. The latest wave of Covid-19, as with everywhere else where the virus has taken off, has delayed the economic recovery and therefore worsened the budgetary situation in the relevant economies. There were formal limits on how much of a country's eligible bonds the ECB could buy, a third, but this was lifted when the support operation started last March. This is a very sensitive subject for countries such as Germany and the continued bond buying programme looks very like direct financing for some countries. As and when interest rates start to rise, debt servicing costs will become a problem and may spook investors. Back in March, Christine Lagarde, the ECB President, said on Twitter "there are no limits to our commitment to the euro" and, if we take the ten year government bond yields for the countries just mentioned which have very high levels of outstanding public debt, we see that price signalling does not properly exist. Greece's ten year bonds yield, at the time of writing, are 0.57%, those of Italy, 0.53%, Portugal just below zero, Belgium -0.37%, France -0.32%, Cyprus 0.11% and Spain 0.04%. Should investors lose confidence in parts of the eurozone bond market, the currency is one which could come under pressure. The disciplines of the Stability and Growth Pact have disappeared and these were meant to provide a disciplined support structure for monetary union.

Political dangers could also become an issue. Widening inequality is one consequence of the monetary policy now being followed. Ultra low interest rates have raised the price of many assets, including shares, for the reasons we outlined earlier in this review. This has been going on for a long time, but the severe recession in 2020 and going into 2021 has impacted many people and businesses very severely, whilst those invested in the stock market have generally seen their position consolidated or even improved in 2020. From an economic perspective, one has to ask whether the stock market is now in a bubble and therefore dangerously overvalued. We do not think that this is the case, given the official underpinning of very low or negative interest rates. A stock market collapse would seriously damage economic confidence, whilst a strong stock market, such as we are seeing at present, does have a beneficial economic effect in giving confidence to those who are in a position to take advantage of the situation by investing in new businesses, expanding existing ones or for consumers to take on new commitments, all of which will benefit economic activity. However, the political danger is that politicians will introduce hostile measures against investors or those businesses in sectors which have performed well during the pandemic. Whilst this type of action would not be desirable economically because economies need every ounce of support that they can get to enable economic recovery to get underway, it might be tempting for some politicians. Whilst most countries' public finances have been shredded by the recession and will need to be rebuilt, raising taxes in the present environment is not sending the right economic signals. The best way to start the recovery process for governments' finances is to encourage economic growth. But political backlashes against widening inequality is something investors must be prepared for.

We have touched upon bonds in this review when we have detailed the gross redemption yields on certain eurozone bonds. We have seen that the fall in bond yields in 2020 has been good for investors but the absolute levels of yield continue to pose major risks for medium and long term investors. At the time of writing, the outstanding level of negative yielding debt is almost US$17.3 trillion and, in a rational world, one has to ask who would invest in something which was bound to lose money if held to redemption? Of course, we know why yields are where they are, but one feels that a day of reckoning is coming, perhaps brought on by a rise in inflation. We would much rather invest in good quality real assets via equities where one can see that the valuations are not as extreme.

In this environment, we have inevitably concentrated on the broad issue raised by the economic consequences of the pandemic whereas, in normal circumstances, we would be spending more time on each of the major areas of the world. But, as we look ahead, we will discuss briefly the USA, UK, Europe and Japan, all the time remembering that the broad implications of the pandemic are more important for investors on this occasion.

In the USA, we now know the full results of the USA elections with the Senate run off elections in Georgia which has left the Senate tied 50:50, but with the Democrats controlling it through the casting vote of the Vice President. Wall Street has welcomed the result which is ironic, given that it also welcomed November's result when it looked as if the Republicans would hold the Senate. This paradox can probably be explained by the fact that, given the worsening Covid-19 position in the USA, the fact that the Democrats are likely to be fiscally more expansionary could help the economy in the short term. Back in November, the prospect of a divided Congress limited the scope for influence from the more radical elements of the Democrat party and Wall Street welcomed this, too. We talked about political influences earlier and this may become more of an issue for the US market later, once the pandemic has been brought under control. President elect Biden has promised higher taxes for businesses and higher earners.

In the UK, Brexit has finally been resolved, although we believe that the economic consequences of the pandemic are far more meaningful. Although it is very early days, it might be relevant that in the last quarter, once we had news of the vaccine, the UK market moved ahead sharply and has started off 2021 strongly, even though we have had only a few days trading. Given that Brexit was cited as a reason for the UK's underperformance in recent years, it might seem rational to associate its better recent performance with the resolution of the Brexit issue. However, as we discussed earlier, it may be the revival of value stocks, of which the UK market has plenty, which is driving its performance.

As far as the eurozone is concerned, the worsening Covid-19 position is delaying economic recovery and the major issue is the problem for a currency union which has some members with serious debt issues, even if they are being suppressed for the moment by ultra low interest rates and massive central bank support. The eurozone is not an optimal currency union and there is always a risk that the inherent dangers of such a situation will come out into the open.

As our tables show, Asia has generally performed well over the quarter and the year. Perhaps because of previous experience with SARS, it has handled the Covid-19 situation relatively well and the Chinese economy has made an excellent recovery. The performance of its stock market has been very strong. Asia certainly seems to be the best growth area and it will be important to see how President elect Biden handles relations with China. One of the issues on which the Republicans and Democrats are fairly close is China, although Joe Biden is likely to be much less aggressive in his tone. However, it is not easy to see much progress being made given recent developments in Hong Kong, for example, which will make trade negotiations more difficult

It is very difficult to make forecasts for 2021, given the uncertainty surrounding the course of the pandemic. What informs our investment policy is the lack of any attraction in the fixed interest market and the fairly certain underpinning of interest rates by central banks, which we think gives support for equities, even if they are historically highly valued. Geographical diversification remains essential and, even after the strong run on Wall Street and the possibility of a more hostile administration to business and investors, the USA should feature prominently in portfolios. It has an excellent range of companies which are not always available elsewhere, for example the UK and Europe. Early on in the pandemic, when we wrote to investors, we said that good companies do not become bad companies because of the temporary collapse of their markets and the emphasis on high quality companies in these uncertain times is important in reducing risk.

After a generally positive performance in 2020, achieved against an appalling economic background, investors must not become complacent. Extraordinary monetary measures have propelled asset prices higher and we have to be frank and say that this is not the best reason for a rising stock market. That being the case, we think that quarterly fluctuations in valuation levels are inevitable, but long term investors should maintain their current positions and our policy remains unchanged, namely wide geographical exposure to high quality equities.

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