Discovery Global Multi-Asset Fund

Market background

Global risk assets moved materially higher in the final quarter of 2020 following positive developments regarding key issues such as COVID-19 vaccines, fiscal stimulus in the US and a Brexit deal. Vaccines with better-than-expected efficacy rates were developed, authorised and deployed in the UK, Europe. In light of continued economic challenges, central bankers confirmed they would keep financing conditions favourable, whilst in the US an agreement was made with respect to additional fiscal stimulus. Elsewhere, a Brexit separation deal was finally agreed towards the end of the year. In the US, Joe Biden was elected as the next US President; however, a narrower-than-expected margin of victory in key states caused a period of uncertainty for markets. Economic data through the quarter broadly indicated that the recovery still had momentum, although US jobs data showed some cause for concern. More concerning for investors was the increase in COVID-19 case numbers and subsequent reintroduction and/or tightening of restrictions across a number of countries.

Following the vaccine news, Growth assets recovered strongly from shorter-term weakness in late October, with cyclically exposed assets leading the charge. Global equities posted double-digit-plus returns during the quarter with the UK being one of the best performing regions. The vaccine news provided a necessary boost given the FTSE 100's exposure to traditional value sectors; the index subsequently soared to its highest level since the pandemic as the post-Brexit trade deal was agreed. Although emerging market equities in aggregate outperformed developed market equities, led by Asia-ex Japan, China was the notable laggard - albeit still delivering a mid-single digit return - due to headwinds from the ongoing conflict with the US. The S&P 500 index ended the year at another record level, posting double digit returns, while Europe reached post pandemic highs. There were similar outsized risk-on moves in the high yield corporate bond market, as Europe outperformed the US. In emerging markets, both sovereign bonds and currencies posted positive, and in some cases high, returns.

As a “risk-on” rotation prevailed, performance of Defensive assets was mixed. In reaction to a slew of positive news, US Treasuries sold off whilst other developed market sovereign bonds, such as those in the UK and Germany, generated a small positive return. Investment grade corporate bonds in both the US and Europe generated positive returns, attributed to a supportive technical backdrop as the asset class continued to see inflows from both central banks and investors. The US dollar weakened to fresh lows since April 2018 amidst the cautiously optimistic tone seen in the markets and the commitment to highly accommodative policy from the US Federal Reserve, with this benefiting other currencies such as the euro and the Japanese yen, whilst sterling also made gains following the post-Brexit trade deal agreement.

Gold had a challenging start to the quarter but recovered in December to generate a small positive return of c. 1%, ending the quarter just below $1,900/oz.

Performance review

For the quarter, the Fund underperformed the benchmark.

Risk assets rose strongly through the fourth quarter due to a decline in US election uncertainty, as the democrats won but failed to achieve a “blue wave”, and the announcement of the results of a number of highly successful coronavirus vaccine trials. The latter news followed by approvals and the beginnings of vaccination rollout programmes caused that share prices of companies that have been inhibited by COVID-19 bounce very strongly over the period.

The Fund’s equity allocation added to returns over the period, with an overweight equity position, emerging market domestic growth exposure, Japanese automation companies and semiconductor equipment companies where stand out performers.

In fixed income the underweight to duration added to returns. Active currency was a positive contributor as positions in emerging market currencies gained strongly against the US dollar.

Outlook and strategy

The global economy has bounced back strongly post the material lockdown induced contraction experienced through the first half of 2020. As we look forward, there is expected to be a slowing of economic activity in the next three months due to increased restrictions on movement in Europe and the United States in particular, but also in other countries around the world. The rollout of vaccines, which is now underway and expected to accelerate in the coming months as additional vaccines are approved, should help markets in looking through shorter-term economic weakness driven by increasing restrictions on movement. Vaccines should then allow a return to more normal social distancing by the second half of next year for much of the developed world. At the same time, the size of the fiscal and monetary policy responses remains significant and has scope to grow in the coming months, as central banks and governments seek to support households and businesses through this period of economic weakness.

Our central scenario for financial markets continues to be that volatility will likely remain elevated in the coming quarters due to a combination of vaccine approvals and rollouts, economic weakness due to lockdowns and policy responses. Risk premia have compressed considerably from the relatively extreme levels reached in late March and April but remain elevated relative to history in a number of areas. We continue to see opportunities for medium-term investors as a result, although these have become more specific rather than broad based. We continue to watch China's credit cycle, the progress in vaccine rollouts and the willingness of central banks to maintain highly accommodative policy as economies recover, believing that these are the primary forces driving financial markets from here. We will seek to continue to take advantage of opportunities as they are presented by market volatility.

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