

# Market update: 2020 review and 2021 outlook

The investment team from Momentum Global Investment Management (MGIM) provides their thoughts on 2020 and what we can expect in the year ahead.

## RESPONSE

### 2020 in review



**Richard Stutley**  
Portfolio manager

With 2020 being uncharted territory, what lessons have you learnt?

2020 will foremost be remembered for its humanitarian impact; ultimately, we all owe a debt of gratitude to the scientific community for their work in developing a vaccine(s). Andrew, Alex and I worked together through the financial crisis, so to an extent we've been here before as investors, but nonetheless events last year have reminded me of a few key lessons:

- Firstly, distinguish between systemic shocks and events which receive a lot of airtime but ultimately have little bearing on the path of your investments; devote time to understanding the former.
- Secondly, don't overestimate the frequency of systemic shocks or extrapolate their effects into the distant future; there is a huge desire to return to public spaces and social interaction, when the time is right.
- And thirdly, even in the worst of times, one can often draw positives: 2020 is the year that ESG became mainstream, with potentially significant benefits for society and the environment in the future.



**Andrew Hardy**  
Director of Investment  
Management

How do you think you added value to investors?

The biggest value add came from us keeping clients invested, which we did in more ways than one. Rather than de-risking portfolios in the teeth of the crisis, we instead rebalanced, by buying equities and credit where valuations were most attractive, funding that by selling defensive assets that had held up very well. That ensured our investors participated fully in the ensuing recovery, which saw global equities gain 70% (USD terms) from the March lows through to year-end. The rebalance trades were significant trades that were difficult to make when markets were in freefall, but that's where I think the benefits of most our team having worked together for over a decade really kicked in; we're well drilled and had trust in our process.

Our open and regular communication with clients also played a big part in keeping them invested, by clearly explaining our thinking and always providing full transparency around portfolio holdings and drivers. We focused on the reasons to be optimistic and the significant longer term return potential that crises so often create, as well as the difficulty in trying to pick the bottom of a bear market.



**Alex Harvey**  
Co-head of research and portfolio manager

What is the most important asset allocation decision you made last year?

It would have to be our decision to overweight convertibles after the market bottomed in 2020, especially when viewed in risk-adjusted terms. The asset class rarely presents a tactical opportunity of the magnitude we saw; it was probably only bettered in the wake of the financial crisis over a decade ago. The asset class protected reasonably well as the market fell but rose almost in lockstep with global equities through the rest of the year. A combination of issuance on favourable terms (i.e. cheap) and the underlying bias to growth companies. The global convertibles focus index ended the year over 25% higher, almost 10ppts higher than global equities, with less than half the volatility. We have now reduced allocations back towards a more neutral position, but still retain a holding as we like the characteristics they bring to a multi-asset portfolio.



**Andrew Hardy**  
Director of Investment Management

Is there anything you would have done differently from an investment process/philosophy perspective?

It's important to recognise mistakes and keep improving your process to become better investors, but there's nothing that I think our team should have done differently last year. Instead, I think we made a number of very good decisions, and importantly they were made for the right reasons; combining our tried and tested process with careful judgement around the wholly unique situation we were trying to navigate.

Our deep knowledge of portfolio holdings was a key factor in helping us make the right decisions, because we understood where the risks lay in our portfolios, across different holdings and asset classes. That meant we could confidently stick with and add to those areas that appeared most oversold, and focus in on those areas that were most vulnerable. Of course, we had some holdings that caused us more problems than others - two, in particular, come to mind - but we dealt with them quickly; selling one and sticking with the other, which based on subsequent returns turned out to be the right decisions in both cases.



**Rob White**  
Senior analyst

What is the most valuable discussion you had with any of your underlying portfolio managers during this period?

2020 was an extraordinary year in many respects, and the level of interaction with our underlying portfolio managers was higher than usual. The most interesting aspect of our discussions was that managers were dealing with a complete tail risk scenario which rendered most of their company models temporarily redundant. The path for corporate earnings became linked to the path of the virus, and so a lot more emphasis was put on scenario analysis and the underlying quality of the businesses we were invested in. It was invaluable to us to have that level of insight into how well specific companies were set to deal with potentially zero revenues, and gauge the precise risk/reward opportunity that was to come with the recovery.

## 2021 outlook



**Richard Stutley**  
Portfolio manager

With the investment landscape still uncertain, how have you positioned your portfolios?

Support from governments and central banks was very significant in 2020, leading to a swift rebound in employment, and we expect it to remain so going forwards, with spending replacing austerity as the prescription for the crisis. Progress on vaccines offer economies a credible path out of the pandemic, and the unleashing of huge pent up demand should result in a strong recovery in corporate profits. There will be issues along the way - to be expected as we try to vaccinate a large proportion of the world's nigh on 8 billion population - but we believe the outlook for equities and other risk assets is good and hence we have upped risk in our portfolios slightly.

There are risks out there and looking at our positioning within fixed income it is clear that we are more concerned about inflation than deflation at this juncture, not only because of our assessment of prevailing conditions, but also acknowledging the rich valuations of nominal government bonds that leave little to no protection in a range of scenarios.



**Alex Harvey**  
Co-head of research and portfolio manager

What excites and concerns you about 2021?

As a proud flag flying Brit – and an international investor – I’m excited that we seem to have put the in/out Brexit debacle behind us. There is still a lot of work to be done to ensure cross border business continues with as little friction as possible, but we can now look forward rather than back to the referendum vote which took place almost five years ago now. We still think there is a great investment opportunity in UK equities both from the fundamental perspective that will present itself on any sustained post-Covid-19 economic recovery, as well as from the narrowing of the UK discount that has embedded in the recent Brexit years.

My concern is that headline asset prices – and notably so bonds – are riding high on the flood of central bank purchase programmes and rising debt levels. There is no free lunch so at some point that credit is either withdrawn or it is monetised, both of which have consequences unless exquisitely managed (unlikely). That said, it is unlikely to be this year’s problem. More immediate perhaps is the lofty valuations we see in more segmented parts of the market and investment behaviour that is indicative of frothy pricing.

**General**



**Andrew Hardy**  
Director of Investment Management

Why should investors choose MGIM? What do you think differentiates MGIM from other asset managers?

The experience and continuity of our team, breadth of capabilities and rigour of our process are the obvious and ultimately the most important factors when investors pick us.

But what I think really sets us apart is the way we work with clients: we’re more than just an investment manager, we engage very closely with them and deliver an outstanding and wide-ranging service, with a level of focus, dedication and collaboration which we’re often told is well beyond anything our peers offer. This has helped us develop exceptionally strong and enduring partnerships with many clients around the world that have lasted decades and more. With us, it really is personal.



**Rob White**  
Senior analyst

How does an outcome-based investment process assist investors in achieving their international investment goals?

Outcome-based investing aligns well with what clients actually want to achieve when they invest offshore, namely an absolute real return in hard currency. While markets are volatile and uncertainties abound, giving an absolute indication of expected outcomes provides a more tangible goal for investors compared to more abstract benchmarks. In this way, individuals are better positioned to make specific plans for their future financial goals, and having specific outcomes in mind helps investors stick with their investment when times get tough.

## Meet the team

### **Andrew Hardy, CFA - Director of Investment Management**

Andrew Hardy is a long-standing member of Momentum's UK investment team, having been with the company since 2005. Prior to his appointment as Director of Investment Management he was co-Head of Research and has managed portfolios for over ten years, leading on the Harmony Portfolios multi-asset range and global developed and emerging market equity funds. During his time at the company he has played a central role in developing the team's investment philosophy and process while supporting business strategy and development. He is a CFA Charterholder and has a BSc in Economics from the University of Bath.

### **Alex Harvey, CFA - Co-Head of Research & Portfolio Manager**

Alex is a co-head of research and a portfolio manager of the UK domiciled Focus Funds and Momentum's Managed Portfolio Service. Alex is also the lead portfolio manager for a number of our fixed income funds and portfolios managed out of London including the Momentum Global Fixed Income Fund and the Momentum International Income fund. Alex coordinates the international investment strategy and asset allocation process, liaising closely with the strategy and investment team in SA. Alex regularly appears in the press and presents at conferences all over the world. He joined Momentum in September 2007 having previously worked as Futures Portfolio Manager at JP Morgan Asset Management in London, where he started his investment career in 1998. Alex is a CFA charterholder.

### **Richard Stutley, CFA - Portfolio Manager**

Richard originally joined Momentum in 2008 as an intern, and re-joined the team in 2010 after completing his degree in Economics and Politics. He became a CFA charter holder in 2013. Richard has progressed from being an Analyst to an Assistant Portfolio Manager, to now a Portfolio Manager. He specialises in building multi asset solutions for clients, assisted by the wider investment team at Momentum.

### **Robert White, CFA - Senior Analyst**

Robert joined Momentum in 2019 as a Senior Investment Analyst. His previous role was at GAM Investments where he was a Senior Investment Analyst in the Investment Solutions business with coverage across multiple asset classes, predominantly in Emerging Markets and Asia. He has expertise in fund selection across both alternative and traditional assets.

Prior to GAM, he was part of the investment team at GHC Capital Markets, managing risk graded portfolios for a diverse range of clients. Robert is a CFA charterholder and also holds the CISI Certificate in Investment Management. Outside of work, Robert is a keen musician and enjoys performing with local jazz groups.

To meet the rest of the team, visit: [momentum.co.uk/our-team/](https://momentum.co.uk/our-team/)

## About MGIM

Momentum Global Investment Management was established in the UK in 1998 and focuses on designing, building and managing outcomes-based investment solutions, delivered through multi-asset portfolios and tailored client solutions.

We work closely with our institutional and adviser partners in the UK and Europe, Asia and the Middle East, South America and South Africa in order to manage solutions that meet the needs of our clients.

The firm is part of Momentum Investments, as part of Momentum Metropolitan Holdings Limited.

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