

## Never mind the ballots

# Wealth managers back US equities ahead of fractious election

Wealth managers have upped their US equity allocations to the highest conviction levels since 2015, as lingering doubts about the course of Covid-19 were outweighed by fear of missing out on a world-beating run in North American stocks.

Last week's chaotic and bad-tempered US presidential debate may not have provided much reassurance for those hoping for a stable policy outlook, but 45.5% of readers told *Wealth Manager's* quarterly survey they were overweight US equity heading into a historically fractious presidential election.

That was 4% higher than the previous quarter, and the most bullish aggregate position on the country since early 2015, apparently undented by a bout of profit-taking that has gripped the market since early September.

Having made a new record high at the beginning of last month, the S&P 500 has dropped back below its early February peak but remains well supported on a range of technical measures. Luke Bagshaw, partner at S&T Wealth Management, summed up the bull case: 'We see the tech-heavy US market continue to lead and the more traditionally weighted areas to languish in this new era.'

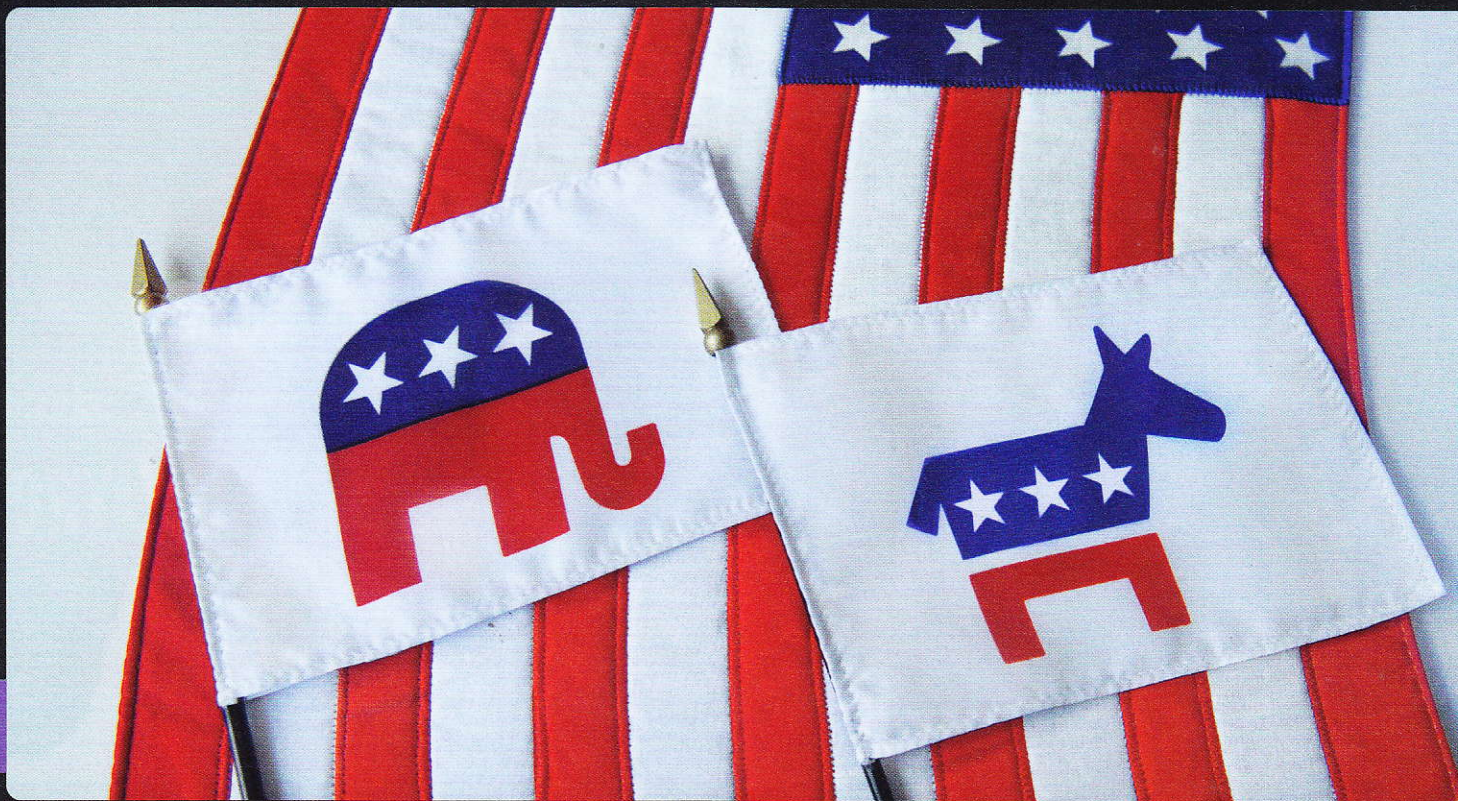
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This optimism was echoed in readers' macro views. Nearly 55% thought global growth would continue to rise over the next year, with a further 14% forecasting it would rise significantly. The proportion who believed it would fall – 9.1% – was at a two-year low. Rathbones multi-asset boss David Coombs said: 'If we have an effective vaccine then growth could surprise on the upside as could inflation temporarily.'

However, Tom Davies – an investment director at Quartet Investment Managers – was more cautious. He noted that businesses are still learning to live with the impact of the coronavirus, causing 'ongoing disruption'. He added: 'The uncertainty over a second wave will also hinder economic activity, so equity markets will have to reflect that during the autumn, while the US election will add to volatility in the run-up to November, and possibly beyond.'

Exactly half of wealth managers predict corporate profits will rise or rise significantly over the next





12 months, while only 13.6% expected them to fall. This is the most favourable sentiment on the question since the third quarter of 2018.

#### UK STOCKS ARE THE MOST HATED

Wealth managers were their most bearish on UK equities since our survey began in 2011, however, with 54.5% underweight the market. This marked a stark shift from the 12.5% who held a negative view on the region just three months ago. The change in mood was likely driven by concern over the country's upcoming departure from the European Union, as both sides in the continuing negotiation moved into brinkmanship ahead of October's deadline for a deal. Several respondents said Brexit was a top concern among their clients.

With much of the rush to own US equity assets underpinned by the Federal Reserve's leadership on monetary expansion, investors also rushed to the world's other great reflationary policy play, with 45.5% overweight Japanese stocks. That was a huge increase on the 16.7% reported in Q2. Elsewhere, proportionally fewer investment managers were underweight European equities than at any point since the end of 2018.

Asked what they expect to be the biggest investment call of the next three months, most responded this was likely to involve the management of their equity positions. S&T's Bagshaw said he was asking himself: 'Do we ditch the poor-performing traditional stocks now, or wait for a small bounce-back?' For Quartet's Davies, the biggest question was 'how best to allocate to equities given lofty valuations in some of the more attractive sectors'.

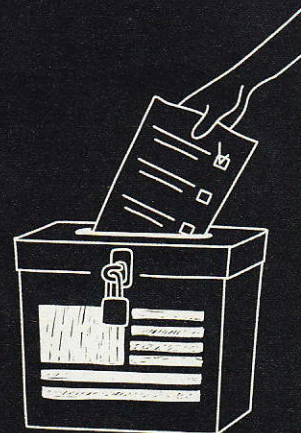
JM Finn investment manager Brendan Company is focusing on how to time departure from an overweight cash position. For his part, Mark Williams, a director at Charteris Treasury Portfolio Managers, is looking 'to stay fully invested for an expected "Christmas rally" in equities.' Rathbones' Coombs was similarly optimistic. 'After a significant dip in growth over the next three months we should see a recovery over the following nine months,' he said.

Over the full 12 months, Company thinks the most important call will be a bottoming in the current aversion to value factors, with the polarity in factor returns hitting a recent historical high. 'It will be critical to ensure the value is not a value trap and is placed to benefit from any pro-cyclical change in the macro background,' he noted.

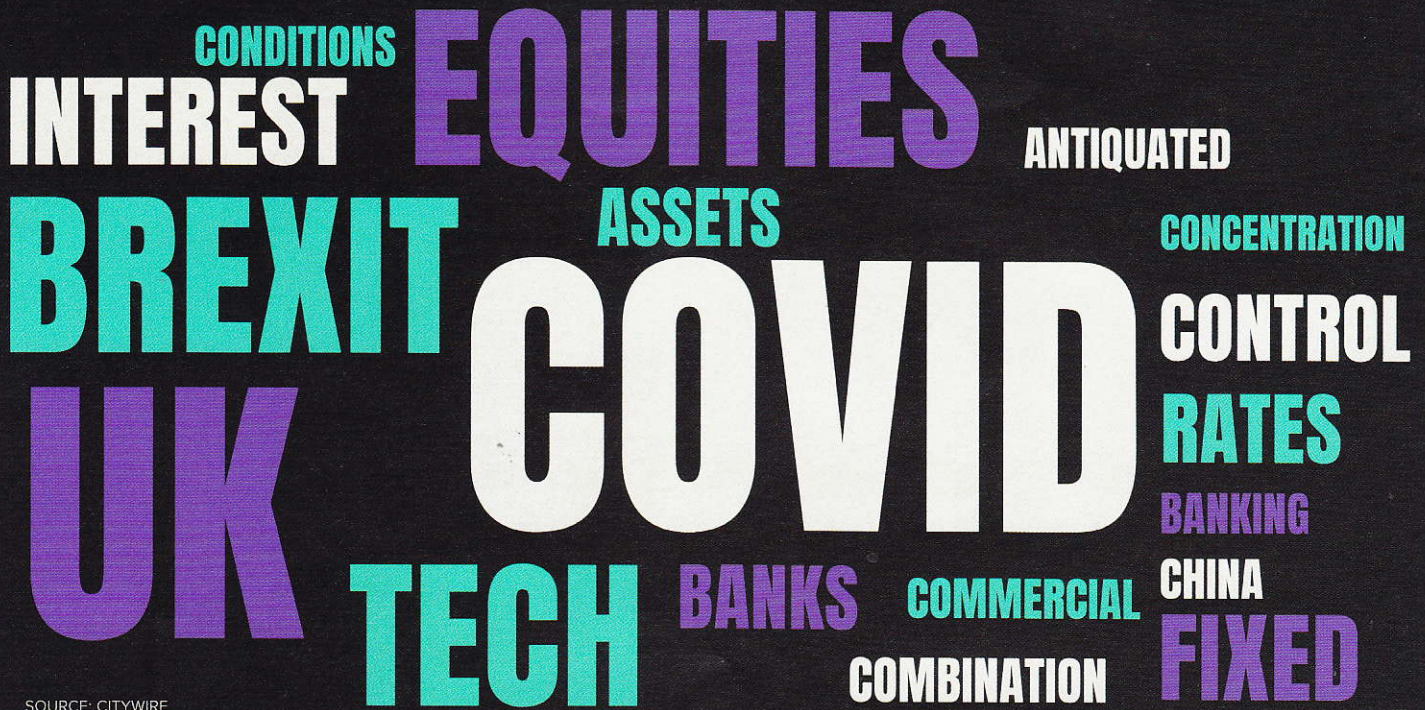
Justin Oliver, Canaccord Genuity Wealth Management's deputy chief investment officer, expects equities will see the biggest upside, as developed sovereign yields continue to trade near new record lows. But he said timing the correct equity factor exposure – between growth, quality, momentum and value – will make the difference between success and failure. 'We favour [growth], but are cognisant of taking too extreme a position given the potential for potentially short, sharp value-led rallies.'

#### UNCERTAINTY REMAINS

Despite the willingness to take on more risk, anxiety remained among respondents over the prospects for markets, mainly driven by possibility of a second major outbreak of the coronavirus. More specific



# WHERE DO YOU SEE THE GREATEST RISK OVER 12 MONTHS?



SOURCE: CITYWIRE

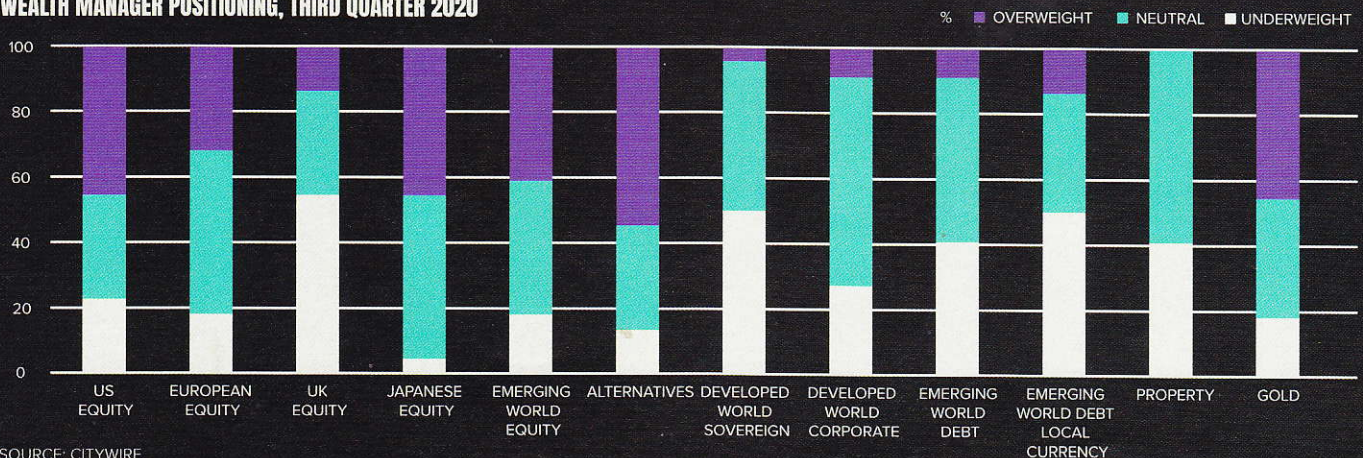
concerns included caution over the level of debt weighing down economies. Odey Wealth partner Tim Bond feared that credit conditions could 'revert to where you would expect to find them given the underlying fundamentals'.

Bagshaw said the biggest risk he saw was to banks. He explained: 'The traditional banking model looks to be dead: antiquated systems, ultra-low interest rates and raft of bad debts.' Williams also expressed caution over the future of fixed

income assets. Overall, respondents maintained a relatively high underweight of around 40% to emerging market debt, and at a figure of 4.5%, reported the lowest overweight to developed world sovereign debt since 2018.

Coombs said 'a protracted legal wrangle over the outcome of the US election' was his biggest fear. This and other lingering uncertainties were shown in an increase in take up of diversifying alternatives, with 54.5% of wealth managers overweight non-

WEALTH MANAGER POSITIONING, THIRD QUARTER 2020

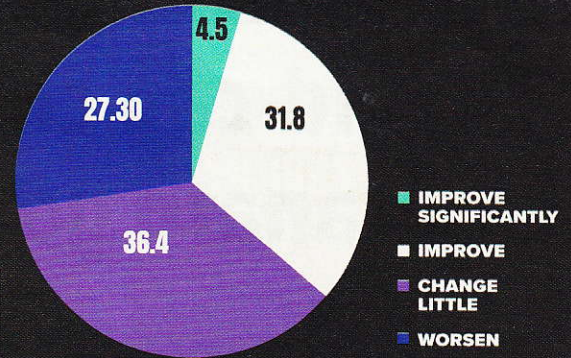


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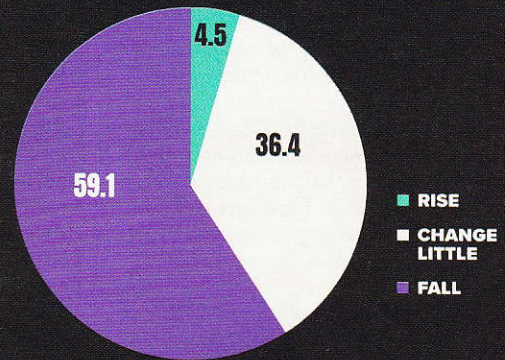


WEALTH MANAGERS ARE CONSIDERABLY MORE BEARISH ON UK EQUITIES THAN THEIR US COUNTERPARTS

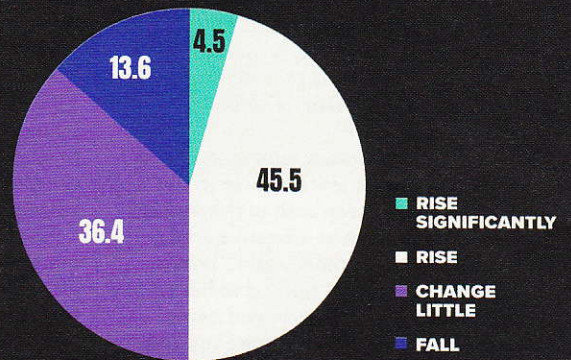
DO YOU EXPECT INVESTOR SENTIMENT TO...



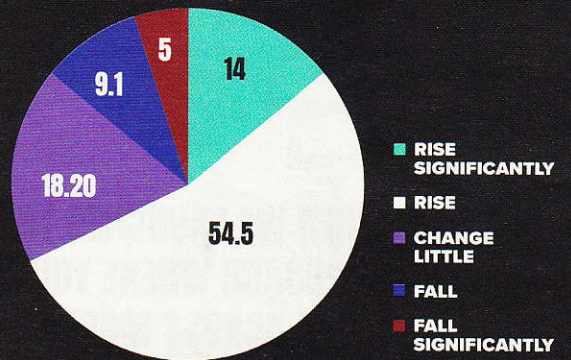
DO YOU EXPECT THE RATE OF INFLATION TO...



DO YOU EXPECT CORPORATE PROFITS TO...



DO YOU EXPECT GLOBAL GROWTH TO...



traditional assets. That was the highest figure since Q1 2016, and represents a rise of 7% over the quarter.

Davies noted he was looking 'to protect clients' capital from volatility by buying it through various fund strategies that are able to profit from elevated risk in markets'. He added: 'Enhanced use of safe foreign currency (while developed market sovereign interest rates remain below or near 0%) and uncorrelated, alternative, strategies that should help to reduce portfolio risk.'

More than two-fifths of respondents (41%) expected inflation from recent lows, which was likely a factor in the 45.5% above benchmark allocation to precious metals. Charteris's Williams expects to see the most upside there over the next year, as fixed income becomes a less attractive prospect.

Taking a contrarian view of widespread aversion to sterling assets, Odey's Bond was strongly positive on the UK, predicting 'UK equities will outperform, particularly small and mid-caps'. Coombs expects that timing when to reallocate to the market will be this year's most critical call. 'With Brexit and Covid, the UK is unloved but could provide big positive surprises,' he said, stressing the 'could'.

One area of rare unanimity among respondents was their outlook on the real estate market: no wealth managers held an overweight in property, for the first time in seven years. Coombs said 'falling income and outlook for property markets' was a major concern for customers.

Another client worry highlighted by Williams and Canaccord Genuity's Oliver was a lack of opportunities for income. The former said: 'Clients are concerned about lack of income supplied by fixed income assets so are looking to equity income to replace it.' •