Investment commentary

Ninety One Global Strategic Managed Fund

Quarter ending 30 June 2020

Performance

	3 Months (%)
Ninety One Global Strategic Managed*	15.35
Benchmark**	12.16

* 'A' share class, net of fees, excluding initial charges, gross income reinvested, source Morningstar.
**60% MSCI AC World; 40% FTSE WGBI
Past performance is not a guide to the future. Investments carry a risk of capital loss.

Ninety One

Previously Investec Asset Management

Growth assets
- React positively to economic strength
- Positive correlation with equities over time

Defensive assets
- React positively to economic weakness
- Safe havens in market crises

Uncorrelated assets
- Variable relationship with economic growth
- Independent returns to equities

The following commentary gives the views of the investment manager at the time of publication.

Key points

- After suffering a major decline in the first quarter of the year, markets staged a significant rebound through the second quarter as investors looked beyond dire unemployment numbers and shorter-term activity falls and became increasingly hopeful that the global economy could recover quickly
- Risk assets bounced strongly over the period as financial markets began to price-in a bottoming of economic activity coupled with unprecedented fiscal and monetary stimulus. The Fund's exposure to higher-quality US equities were notable contributors to performance over the period, as were Asian and emerging equity positions
- The current macro environment continues to display a relatively high degree of uncertainty and the risk of a more pronounced economic downturn remains. However, economic activity in major economies likely bottomed in April and lockdown restrictions are progressively being eased, which should see activity continue its current path of improvement.

Market background

After suffering a major decline in the first quarter of the year, markets staged a significant rebound through the second quarter as investors looked beyond dire unemployment numbers and shorter-term activity falls and became increasingly hopeful that the global economy could recover from its severe, sudden recession relatively quickly. Positive momentum in the markets was driven by slowing growth rates of COVID-19 cases in Europe and Asia and the reopening of economies. However, tension entered asset markets towards the end of the review period as new virus cases arose across the US, as well as a string of localised outbreaks in China and Germany. Nevertheless, the significant amount of liquidity in the financial system and a steady drip of improving data ultimately outweighed any concerns. Elsewhere, tensions between the US and China escalated, albeit to date without much meaningful impact on markets.

All Growth assets performed strongly. Global equities generated a return of almost 20%, led by the US, which having suffered the biggest quarterly decline since the global financial crisis in the first quarter, enjoyed the largest quarterly percentage gain in more than two decades as waves of liquidity outweighed fears of virus exposure broadening in the US. Chinese and UK equities were the relative laggards, though the former leads year-to-date returns. With regards to other risk assets, after having been in negative territory in April, oil went on to have the best quarter in thirty years, although the market remains the worst performer year-to-date as producers continue to tackle the supply glut and waning demand. Rising markets and further stimulus policies announced resulted in renewed appetite in fixed income; high yield bonds in both the US and Europe performed strongly, as did emerging market debt which also benefited from a weaker US dollar.

Although they underperformed their Growth counterparts, Defensive assets also generated positive returns as developed market sovereign bonds benefited from the liquidity surge. Similarly, investment-grade spreads compressed during the quarter which saw prices rise. Given the risk-on environment, the Japanese yen was broadly flat against the US dollar, with these two currencies along with sterling lagging in Q2 against other G10 and emerging market currencies. Gold – also regarded as a 'safe-haven' asset – ended the quarter at a seven-year high.

Performance review

Risk assets bounced strongly over the period as financial markets began to price-in a bottoming of economic activity, coupled with unprecedented fiscal and monetary stimulus. Equity markets rallied most vigorously in the US initially, but this then broadened out to emerging markets as the quarter progressed.

The Fund's exposure to higher-quality US equities were notable contributors to performance over the period, as were Asian and emerging equity positions. Credit spreads across the developed and emerging world also narrowed sharply and the portfolio's overweight allocation to investment grade credit was a strong contributor to performance as a result. Exposure to gold and gold miners/royalty companies also appreciated, being pushed higher by ongoing central bank easing, while returns from currency were mixed.

Activity & positioning

In equities, we reduced and took profits in the Fund's exposure to companies that have performed well this year including commodity royalty companies and Japanese automation companies. We rotated the proceeds into a number of companies that are positioned to benefit from domestic growth in emerging markets and China specifically. Earlier in the quarter we also rotated a passive position in S&P 500 Futures into higher conviction direct equities in the quality growth universe.

In fixed income, we added further to the portfolio's investment grade allocation early on in the quarter. In currency, we added exposure to the Mexican peso on weakness and took profits on a short position in the Thai baht.

Outlook and strategy

The current macro environment continues to display a relatively high degree of uncertainty and the risk of a more pronounced economic downturn remains. However, economic activity in major economies likely bottomed in April and lockdown restrictions are progressively being eased, which should see activity continue its current path of improvement. We continue to take encouragement from the policy response to the global pandemic, with the speed and magnitude of the measures that have been announced and implemented in recent months being unprecedented. We believe the aggressive and rapid nature of this action significantly reduces the tail risk of a more pronounced, prolonged downturn, and it should aid a faster bounce back in activity as economies recover.

Our central scenario for financial markets implies that volatility will likely remain elevated in the coming quarters as the path out of lockdown is unlikely to be smooth and there is scope for a second wave of new coronavirus cases and rolling lockdowns in the future. Investors will continue to have to weigh up the potential longer-term economic damage caused by efforts to contain the coronavirus outbreak, the path of new coronavirus cases as lockdown measures are further eased, treatment and vaccine developments and the impact of material monetary and fiscal stimulus. Risk premia have compressed considerably from the relatively extreme levels reached in late March and April, in response to a bottoming of economic activity and significant central bank liquidity provision, but remain elevated relative to history. We continue to see opportunities for medium-term investors as a result, although these have become more specific in nature rather than broad based. We will continue to take advantage of compelling opportunities as and when they are presented by volatile markets, while maintaining the flexibility to hedge exposure if we see the likelihood of a more pronounced downturn materialising.

Important information