Handelsbanken
Asset Management

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Strategy Review

Key takeaways

Financial markets have welcomed potential progress on a COVID-19 vaccine

Governments are using increasingly targeted measures in their efforts to contain the virus

Biden's presidency could be less onerous than expected for key areas of the market

Policymakers around the globe maintain their support for economic recovery

Inflation is likely to remain subdued for the foreseeable future

As we write, global stock markets are reacting positively to news that pharmaceuticals giant Pfizer has created a potential COVID-19 vaccine. A number of other vaccines and treatments are in development around the world, with trials and approvals processes fast-tracked. Given the colossal resources being devoted to the race to find the medical solution(s) to the pandemic, there are growing expectations that a workable vaccine could be ready within a year.

Leaders are finding new ways to manage the pandemic

Meanwhile, confirmed COVID-19 cases globally continue to rise. Heightened restrictions are now in place across Europe once more, though governments are increasingly responding with more targeted and localised measures, which should be better for both populations and the economy.

The UK faces substantial challenges versus some of its global peers, following an arguable confluence of errors in the early management of the pandemic. Entering into its second round of national lockdown, though, restrictions are less severe this time around. Testing for COVID-19 has also picked up in scale and efficiency, which goes partway to explaining why fatalities remain low as a proportion of total cases of infection.

Overall, while many, many challenges remain, we believe the pandemic is now being managed better throughout most of the world than it was back in the spring, and as a result we are relatively positive about the outlook for the pandemic, the economy, and financial markets from here. The exact length of this tunnel remains unknown, but we believe there is light at the end.

Political clarity on both sides of the Atlantic is tantalisingly close

It had been hoped that the US presidential election would create some of the certainty so valued by financial markets. The ultimate result – albeit one disputed by hard-line Republicans – appears to be Joe Biden securely in the White House, with a majority in the House of Representatives (lower house of Congress) but without control of the Senate (upper house of Congress).

While this could well curtail Biden's ample spending plans, it could also reduce the incoming president's ability to enact any onerous new regulation or make sweeping changes to taxation. These latter points could go some way to explaining why financial markets appear so comfortable with the prospect of a Biden presidency. With regard to our own investment strategy, we do not anticipate making any sharp or significant changes to our positions in US assets in the near future.

Across the Atlantic on home shores, a Brexit resolution remains unforthcoming at the time of writing. While the risk of a 'no-deal' Brexit is meaningful, both sides do appear to be coalescing around some form of a deal, though fishing rights remain among the significant sticking points. It goes without saying that the UK's future relationship with its fellow European nations is of huge significance to its economic outlook, but we would also note that this is just one of many challenges facing the UK economy at present. Within our investment portfolios, we maintain an underweight position in the UK market, with a preference for the shares of smaller and mid-sized businesses.

Central banks and governments continue to support economic recovery

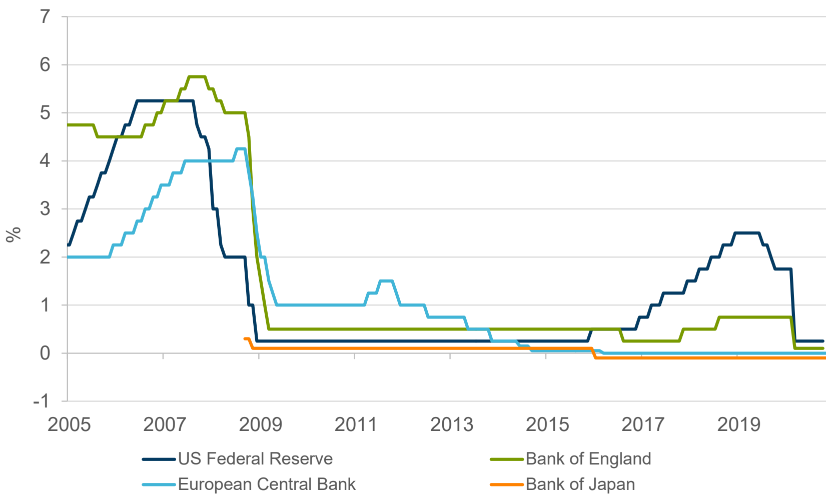
Economic data has broadly been more positive than anticipated in recent months, though the recovery has been a decidedly uneven one around the world. Still serving as the blueprint for post-pandemic recovery, China is doing well and could even be on course to report economic growth in 2020 as a whole – a rarity among

major economies this year. Data in the UK and mainland Europe, on the other hand, has shown signs of struggle. This is set to continue, particularly given the recent spate of fresh restrictions.

One common economic theme around the world has been the huge wave of financial support provided by governments and central banks, from ultra-low interest rates through to furlough schemes. Central banks now appear to have deployed much of their existing tool kit, and are looking to governments to do more. More government support could certainly be on the way, though hopes that President Elect Biden (and fellow Democrats) might soon be able to push through generous economic stimulus have been tempered by the likelihood of the Republican Party maintaining control of the Senate.

Ultra-low interest rates to support the economic recovery

Policy rates at central banks in the US, UK, European and Japan



Source: Macrobond.

Past performance is not a reliable indicator of future results.

It is perhaps worth noting at this juncture that while unparalleled levels of government and central bank support are pushing huge amounts of liquidity into the system, history suggests a weak link between this kind of economic support and a rise in inflation. Projecting inflation is something of a fool's errand, but we can say that the factors which would typically push inflation upwards (e.g. demand, commodity prices) are likely to remain subdued for the foreseeable future. As a result, inflation concerns do not currently play a very active role in our investment decisions.

Under the bonnet in our portfolios

Investors appear to be viewing the events of 2020 as somewhat akin to a natural disaster, rather than a typical economic recession. This certainly goes some way to explaining the historic recovery in global stock markets in the wake of March's lows, though we believe there is still room for investors' appetite for risk to rise.

For the time being, given the balance of factors in play, we aim to hold overall portfolio risk levels steady. This means maintaining our slight overweight to those assets intended to drive financial returns versus those designed to diversify portfolio risk.

Why are we not taking on substantially more risk?

We have maintained a pro-risk view of the world throughout recent months, but it is important to affirm that we are not advocating for any sharp or strong moves into higher risk areas of the market. The pandemic has not left us, and is still very capable of affecting many types of human behaviour, including consumer choices. We are also mindful that when government support programmes around the world (like furlough schemes) roll away, the true impact of this economic shock could become apparent.

Maintaining our thematic stock market positions

Among our stock market holdings, we continue to favour key themes including technology and healthcare. There had been concerns that a Biden presidency could spell bad news for these areas due to increased regulation and taxation. However, we feel that the lack of a Democrat 'clean sweep' (winning the White House plus both houses of government) is likely to limit any extreme sweeping changes in technology or healthcare. What's more, Biden's plans to expand the Affordable Healthcare Act could actively benefit the healthcare sector, and the reality of a mid- and post-pandemic world is that governments are increasingly reliant on technology and technological solutions. Among others, these supportive factors reaffirm our preference for our chosen themes.

Retaining conviction in our creative return drivers

We also have strong conviction in our creative 'return drivers', such as our positions in music royalties, renewable energy, and social housing. We like the fact that market moves in these areas appear uncorrelated to those in wider financial markets – this creates attractive variety among the assets we hold for the purpose of generating returns. Some of these alternative asset types also offer compelling payouts to their holders in an otherwise very low yield world.

Important information

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