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The COVID-19 Pandemic Will Change The Way We. Allocate Assets In Our Portfolios

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OCTOBER

IS BREAST CANCER AWARENESS MONTH

Let's support the fighters, and the survivors, remember the taken, and keep hope burning!

ANALYST INSIGHT

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The COVID-19 Pandemic Will Change The Way We Allocate Assets In Our Portfolio

The US economy continues to gradually bounce back from its pandemic lows; however, a pickup in virus cases coupled with a lack of further support from the US government could weigh on the pace of the recovery in upcoming months. The path ahead remains uncertain, and the forthcoming elections have led to volatility in equity markets. Jobless claims point to a slowdown in the labour market recover. With much of the initial boost from business reopening fading, American's are still focused on the pace of the recovery as they should be. However, there is one crucial fact that many are missing; the market fallout from COVID-19 will likely forever change how investors allocate assets in their portfolios.

A general rule of thumb is that a well-balanced portfolio is composed of 60% stocks and 40% bonds; however, this will no longer hold water in our current economic environment. Investors seeking long-term capital appreciation are not going to be able to rely on exposure to just two assets classes. Notable, before the COVID-19 pandemic, the combination of rising debt levels and central banks efforts to control inflation had already begun to weaken the fixed-income markets.

The US Government has now reached over US$2.5 trillion in coronavirus-related stimulus spending and they are exploring the option to add a second stimulus package to further support their economy. It is difficult to comprehend that adding trillions of dollars to an already sizeable federal debt is sustainable at a time when corporate tax collection and household income will decrease sharply due to the economic environment. Secondly, The Federal Reserve ("Fed", the Bank of America) decision to deploy capital into the markets would ultimately decrease yields on treasury bonds and other similar fixed-income investments in the future. The Fed's balance sheet has increased to approximately US$6.6 trillion, growing by almost 54% in two months. Also, the Fed has reduced its interest rate range to 0% – 0.25% in an effort to help fight the panic set on by the crisis. However, as interest rates near zero, it is evident that bonds simply cannot replicate the historic levels of income investors need, especially those in retirement. Investors are now turning their attention to corporate bonds in pursuit of higher yields. Unfortunately, the COVID-19 pandemic will put pressure on corporate earnings and hence make corporate equity investments and corporate bonds risker.

While investors must adapt to our changing environment, one must question how a COVID vaccine discovery can affect various asset classes? While the general expectation is that a vaccine will boost the economy, the impact may not be positive for all investment asset classes. For instance, gold may correct post-COVID as the price was supported by the uncertainty over the pandemic. The US equity market has seen a sharp recovery from the lows in March. We do believe that the discovery of a vaccine will be positive for the US equity markets, but there may not be a substantial rally as seen before. However, we expect our local market to rally on news of a vaccine as this would give local investors a promising outlook on the recovery of our economy. Debt investments are unlikely to be affected, and interest rates are likely to remain low for a while given the economic impact caused by the coronavirus pandemic. Governments across the world are racing to discover a vaccine for COVID. Investors must position themselves across asset classes that are not only in line with their objectives but also keeping in mind how the risk associated with various assets have changed as a result of the pandemic.

"The stock market is a device for transferring money from the impatient to the patient"
– Warren Buffet

LOCAL EQUITIES MARKET

For the week ended Friday, our local stock market closed higher week-over-week. The Main Market Index increased by 2.02%, the JSE All Jamaican Composite Index increased by 2.13%, the JSE Junior Market Index increased by 1.35%, the JSE Combined Index increased by 1.17%, and the JSE USD Equities Index increased by 1.77%.

The biggest winner this week is Paramount Trading (Jamaica) Limited rising by 20.67% to close at J$1.70. The biggest loser was Barita Investments Limited falling by 15.89% to close at J$70.46.

Year to date, all the major equity indexes are still down by high double digits (see, the table below); and three months since March, has been relatively flat.

Market volume amounted to 17,770,686 units valued at over $96,730,736.80. Tropical Battery Company Limited was the volume leader with 5,436,363 units (30.59%) followed by Transjamaican Highway Limited with 2,526,590 units (14.22%) and Mailpac Group Limited with 1,708,177 units (9.61%).

Cinema company Palace Amusement Company has taken two of its four movie theatres out of commission, citing a lack of customer traffic. The closure of the two cinemas – Palace Cineplex in Liguanea, Kingston, and Palace Multiplex in Montego Bay – took effect on Wednesday

http://jamaica-gleaner.com/article/business/20201002/palace-shutters-two-cinemas

Unserviced bank and mortgage loans grew by one-third to $27.9 billion over the span of a year ending June, according to new central bank data.

It's the highest percentage rise in eight years and, as a dollar value, grew by $7.5 billion from $20.4 billion a year earlier. The unserviced debt, also called non-performing loans, or NPLs, reflects the increased economic challenges faced by borrowers amid job losses and lay-offs linked to the coronavirus.

The growth in NPLs across commercial banks alone was 32.8 per cent, to $24 billion. The data did not disaggregate whether personal or commercial loans were hardest hit. Building societies, which distribute mortgage loans, saw their NPLs spike by 67.3 per cent to $3.9 billion.

The January-March 2020 period was the first quarter that witnessed a double-digit rise in NPLs in years, and the deterioration continued into the June quarter.

http://jamaica-gleaner.com/article/business/20201002/sharp-rise-loan-defaults-economy-falters

Index	2/10/2020	25/9/2020	31/12/2019	Week/Week	Year-to-Date
JSE Main Market	368,099.75	372,604.36	509,916.44	2.02%	-27.81%
JSE Junior Market	2,567.42	2,539.17	3,348.97	1.35%	-23.34%
JSE Combined Market	366,291.17	370,142.40	505,253.98	1.77%	-27.50%
JSE USD Equities Market	195.96	186.85	226.23	1.77%	-13.38%

INTERNATIONAL DEVELOPMENTS

Weaker-than-expected job growth in September sent a signal that the sharp economic recovery off the coronavirus shutdown may be hitting a wall.

The Labor Department reported Friday that nonfarm payrolls increased by 661,000 in September, held back by declines in government employment and an exodus of workers from the labor force.

In normal times, that type of hiring pace would be considered a sign of a robust job market. The total, in fact, would have been the best month the U.S. had seen since 1983 – if these were normal times and not amid the Covid-19 era that has changed the benchmarks by which economic data is measured.

As it stood, the total was a fairly wide miss from Wall Street's expectation of 800,000. The unemployment rate fell more than expected to 7.9%, but that was mostly due to a sharp decline in labor force participation.

Taken together, the report is a potential early flare from the business community that a rebound during which 11 million jobs were refilled in four months could be petering out.

https://www.cnbc.com/2020/10/02/massively-concerning-jobs-report-sends-a-signal-that-the-economic-recovery-could-be-fading.html

The U.S. economy plunged at a record rate in the spring but is poised to swing to a record increase in the quarter that just ended.

The Commerce Department reported Wednesday that the gross domestic product, the economy's total output of goods and services, fell at a rate of 31.4% in the April-June quarter, only slightly changed from the 31.7% drop estimated one month ago.

The new report, the government's last look at the second quarter, showed a decline that was almost four times larger than the previous record-holder, a fall of 10% in the first quarter of 1958 when Dwight Eisenhower was president.

Economists believe the economy will expand at an annual rate of 30% in the current quarter as businesses have re-opened and millions of people have gone back to work. That would shatter the old record for a quarterly GDP increase, a 16.7% surge in the first quarter of 1950 when Harry Truman was president.

The government will not release its just-ended July-September GDP report until Oct. 29, just five days before the presidential election.

https://www.cnbc.com/2020/09/30/us-gdp-q2-2020.html

Index	02/10/2020	25/9/2020	31/12/2019	Week/Week	Year-to-Date
Dow Jones	27,682.81	27,173.96	28,462.14	1.97%	-3.00%
S&P 500	3,348.44	3,298.46	3,234.85	1.52%	3.64%
NASDAQ 100	11,255.69	11,151.13	8,733.07	0.94%	28.89%
FTSE 100	5,902.127	5,842.67	7,542.44	1.02%	-21.75%
Euro Stoxx 50	2,190.93	3,137.06	3,748.47	1.72%	-14.80%

Local Economic Conditions

USD Foreign Exchange Market

- The Jamaican Dollar appreciated against most major currencies last week. Our local currency depreciated by 1.00% against the U.S. Dollar week on week to settle at $143.40 as at close of trade Friday, relative to J$141.98 per US$1.00 at the end of the prior. Year to date depreciation has been 8.17%.

- Since the outbreak of the COVID-19, the Bank of Jamaica (BOJ) has been proactive in providing adequate liquidity support to our local institutions. However, this has been difficult especially seeing that manufacturers and importers have been demanding additional foreign exchange to purchase raw materials to carry out their business in preparations for the upcoming hurricane season, as well as market players engaging in precautionary purchasing.

- The BOJ recently reopened three tranches of Fixed Rate Benchmark Investment Notes with maturities in 2023, 2029 and 2034 (the “Notes”).

- Collectively, the reopening of these Notes will raise approximately J$39 billion.

Currency Pair	2/10/20	25/9/20	31/12/19	Wk/Wk	Year-to-Date
JMD: USD	143.40	141.98	132.57	-1.00%	-8.17%
JMD:CAD	109.04	108.02	100.70	-0.94%	-8.28%
JMD:GBP	186.57	183.32	170.64	-1.77%	-9.33%

Unit Trust Performance

- The Money Market Fund increased 0.23% week-on-week, the FX Bond Portfolio had increased by 0.31%, the F.X. Growth Portfolio increased by 2.15% in value, and the Real Estate Portfolio decreased by 0.64% in value. The Capital Growth Fund increased by 5.75% week over week.

- Barita's Collective Investment Schemes ("CIS") offer the opportunity for investors to remain invested in the market at this delicate stage of the market cycle; moreover, there is a diversification benefit and opportunity to have a professional portfolio manager make the best-in-class professional judgements on your behalf.

- The F.X. Growth Fund, which is benchmarked against the S&P 500, has been in-line with it’s benchmark with a 3.64% year to date performance relative to S&P 500’s performance of 3.64% . This fund helps investors to gain exposure to the U.S. equities market, without taking on the risk of directly investing in a single company.

- The Capital Growth Fund suffered the same fate as our local equity market but remains above the year to date performance of the combined index. This is as attractive as securities were also oversold during the March sell-off and represented an attractive entry point to be capitalized on. The FX Bond Portfolio remains an attractive fixed-income portfolio, especially taking into consideration the large retreat from emerging market (E.M.) securities. With investors seeking "safe haven" in a more developed market (D.M.) securities and essentially selling down their positions in E.M. securities, opportunities were exposed for our fund managers to capitalize on.

“The fool wonders, the wise man asks”
– Benjamin Disraeli

CONCLUSION

Unit Trust Fund	30/09/2020	23/9/2020	Week/ Week Return	Year-to-Date Return	1 Year Return	Yield
Capital Growth	82.6339	78.1351	5.75%	-14.63%	-14.11%	-
Money Market	14.7227	14.6884	0.23%	2.48%	2.80%	2.60%
Income Portfolio	100.00	100.00	-	-	-	2.44%
FX Bond Portfolio (US$)	1.3103	1.3063	0.31%	-2.37%	-1.13%	2.11%
Real Estate Portfolio	5,348.23	5,382.58	-0.64%	3.95%	16.43%	-
FX Growth Portfolio	0.9283	0.9088	2.15%	3.64%	7.87%	-

- A general rule of thumb is that a well-balanced portfolio is composed of 60% stocks and 40% bonds, however this will no longer hold water in our current economic environment
- We expect our local market to rally on news of a vaccine as this would give local investors a promising outlook on the recovery of our economy.
- Debt investments are unlikely to be affected and interest rates are likely to remain low for a while given the economic impact cause by the coronavirus pandemic.
- Investors must position themselves across asset classes that are not only in line with their objectives but also keeping in mind how the risk associated with various assets have changed as a result of the pandemic.

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