Quarterly Outlook – Global Equities

CORONAVIRUS WEIGHS ON ECONOMIC RECOVERY

JULY 2020
David Eiswert
Portfolio Manager, Global Focused Growth Equity Strategy

KEY INSIGHTS

- Not all of the concerns that battered markets in March have been dispelled, and valuations now joins the list of near-term risks we are monitoring.
- We believe we have reached the "stop getting worse" phase and are seeing signs of economic improvement.
- We moderated our positions in the most expensive secular growth companies and are looking around the world to find where value is presenting opportunity in quality growth stocks.

Equity markets staged a dramatic rally in the second quarter despite poor economic data as the combination of extraordinary monetary and fiscal stimulus, some success in slowing the spread of the coronavirus through social distancing measures, and early signs of progress in vaccine and therapy development helped fuel investor optimism.

MONITORING NEAR-TERM RISKS

However, not all of the concerns that battered markets in March have been dispelled, and valuations now joins the list of near-term risks we are monitoring along with concerns of a coronavirus second wave; rising China-U.S. tensions; and the impending, likely highly divisive, U.S. election cycle.

We don't know with exact certainty how the pandemic will play out from here, how countries will deal with possible second waves of outbreaks and beyond, or how long it will take to produce an effective vaccine. Even though we continue to navigate these uncertain waters, we do believe we have reached the "stop getting worse" phase and are seeing signs of economic improvement.

OPPORTUNITIES IN QUALITY GROWTH STOCKS

The conundrum we currently face is that many of our long-term investments are secular growth companies, which are trading at high valuations or are very crowded trades, while beaten down areas of the market have structural questions around their ability to survive. We seek to be carefully contrarian; we moderated our positions in the most expensive secular growth names that have worked well during the initial phases of the health crisis and are looking around the world to find where value is presenting opportunity in quality growth stocks.

“We believe we have reached the "stop getting worse" phase and are seeing signs of economic improvement.”

We remain cautiously optimistic that the economic improvement we had begun to see in the fourth quarter of last year and the beginning weeks of this year has only been delayed and not cancelled. However, we recognise that a sustained economic recovery largely depends on containing the coronavirus in the second half of this year and beyond.

We continue to focus on businesses which are reasonably valued and will survive and grow on the other side of this recession. We are thinking creatively to determine which stocks will likely benefit from secular change, now and over time.

RISKS

The following risks are materially relevant to the portfolio.

Country risk (China) – all investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licence or the Stock Connect program may be subject to additional risks.

Country risk (Russia and Ukraine) – in these countries, risks associated with custody, counterparties and market volatility are higher than in developed countries.

Currency risk –changes in currency exchange rates could reduce investment gains or increase investment losses.

Emerging markets risk – emerging markets are less established than developed markets and therefore involve higher risks.

Small and mid-cap risk – stocks of small and mid-size companies can be more volatile than stocks of larger companies.

Style risk – different investment styles typically go in and out of favour depending on market conditions and investor sentiment**.**

General Portfolio Risks

Capital risk –the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Equity risk –in general, equities involve higher risks than bonds or money market instruments.

Geographic concentration risk –to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk –a portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk –investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk –the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk – operational failures could lead to disruptions of portfolio operations or financial losses.

202007-1253673