SEASPRAY FINANCIAL
Wealth & Investment Management

A Time to Heal….

Over the past month or so, we have seen investor sentiment swing down and then up, with relatively large market moves in both directions as these markets continuously attempted to accurately price the risks to either side. While we acknowledge that some risks to the downside still do prevail, we maintain our positive medium-long term outlook on equities and reiterate our in-house view that in the current investment environment, longer term opportunities are consistently presenting themselves in specific names and areas of the market. The remaining 7 weeks of 2020 and beginning of 2021 in our opinion will be seen as a time to heal, not only in an economic and political sense but also in a sense of wellbeing and a positive outlook for the future.

The two main stories of the past week support this view: firstly Joe Biden and the Democratic party announcing victory in the United States' Presidential Election, and secondly the important milestone announcement from Pfizer and BioNTech regarding the success of their Covid-19 vaccine in its recent human trials. While these two pieces of news have launched markets higher in the very short term, we believe that they will support a solid overall recovery and will serve to underpin markets well into 2021.

Month in Review

As yet another eventful and closely monitored earnings season for global financial markets comes to a close, we must take into account many variables when assessing the overall macroeconomic and investment outlook for the rest of Q4 2020. Aside from the current corporate earnings season, we have over the last month or so seen heightened volatility across equity markets, a broad mix of economic data points and results, rapidly growing global Covid-19 infection curves with many renewed lockdowns, and the drama of the US Presidential Election all contributed to volatility . When we look back at our 2020 outlook in January and subsequent monthly releases, one constant theme was our expectation for elevated volatility in equity markets as we approached the US Election, followed by calmer markets and a likely rally into year-end. In our monthly research we have also continuously alluded to the strong possibility that a successful Covid-19 vaccine candidate would be announced before the end of the year, and what this news would mean for markets. All of these things are now coming to fruition.

	1 Month	3 Month	YTD	1 Year
Equity Indices				
S&P 500	1.79%	5.61%	9.43%	14.65%
NASDAQ	0.02%	4.91%	28.98%	36.84%
DAX	1.14%	4.25%	-0.43%	0.02%
EuroStoxx 50	5.41%	6.15%	-7.91%	-6.67%
ISEQ	4.90%	11.76%	-2.48%	2.94%
FTSE	4.44%	4.40%	-16.71%	-14.26%
Multi-Asset Funds				
Aviva Cautious (Risk 3)	0.96%	0.79%	1.14%	2.39%
Irish Life MAPS 3	1.43%	1.67%	-2.89%	-1.70%
New Ireland iFunds 3	0.40%	0.90%	0.00%	1.20%
New Ireland PRIME 3	0.40%	1.10%	-2.80%	-1.90%
Zurich Prisma 3	0.72%	2.10%	1.77%	2.67%
Aviva Strategic (Risk 4)	1.28%	2.13%	-2.16%	-0.26%
Irish Life MAPS 4	1.89%	2.18%	-4.40%	-2.63%
New Ireland iFunds 4	0.60%	1.80%	0.30%	1.80%
New Ireland PRIME 4	1.00%	1.90%	-5.30%	-3.70%
Zurich Prisma 4	1.12%	4.05%	3.52%	5.40%
Aviva Dynamic (Risk 5)	1.41%	3.03%	-4.50%	-2.15%
Irish Life MAPS 5	2.47%	3.28%	-4.69%	0.90%
New Ireland iFunds 5	1.00%	3.20%	-0.90%	1.10%
New Ireland PRIME 5	0.80%	2.40%	-7.70%	-5.50%
Zurich Prisma 5	1.55%	5.63%	5.98%	8.72%
Currencies				
EUR/USD	-0.07%	0.30%	5.39%	7.10%
EUR/GBP	-1.62%	-1.35%	5.49%	3.87%
GBP/USD	1.60%	1.65%	-0.05%	3.12%
USD/JPY	-0.22%	-0.64%	-3.00%	-3.39%
Fixed Income				
US 10yr	0.194	0.377	-0.963	-0.965
Bund 10yr	0.059	0.041	-0.263	-0.240
Irish 10yr	0.044	0.000	-0.274	-0.318
Gilt 10yr	0.116	0.261	-0.422	-0.398
Commodities				
Gold	-2.38%	-7.21%	21.27%	26.37%
WTI Crude Oil	0.76%	-0.41%	-33.00%	-28.05%

Source: Seaspray Financial - Nov 2020

Two weeks ago, we saw the VIX volatility index (dubbed 'the fear gauge') in the States hit a 4-month high at $41.16 as heavy losses led to the US' worst week since March. This risk-off sentiment came amidst a record week for COVID-19 cases in the US and some key European nations, a complete breakdown in stimulus talks and the final few days of market positioning ahead of the US Presidential election. This was followed by an exceptional week and a half for equities, during which the asset class has amazingly seen its strongest gains since April amidst the official Election result and the subsequent vaccine announcement from American pharma giant Pfizer and their German partners BioNTech which we will explore later in this piece.

Source: Yahoo Finance

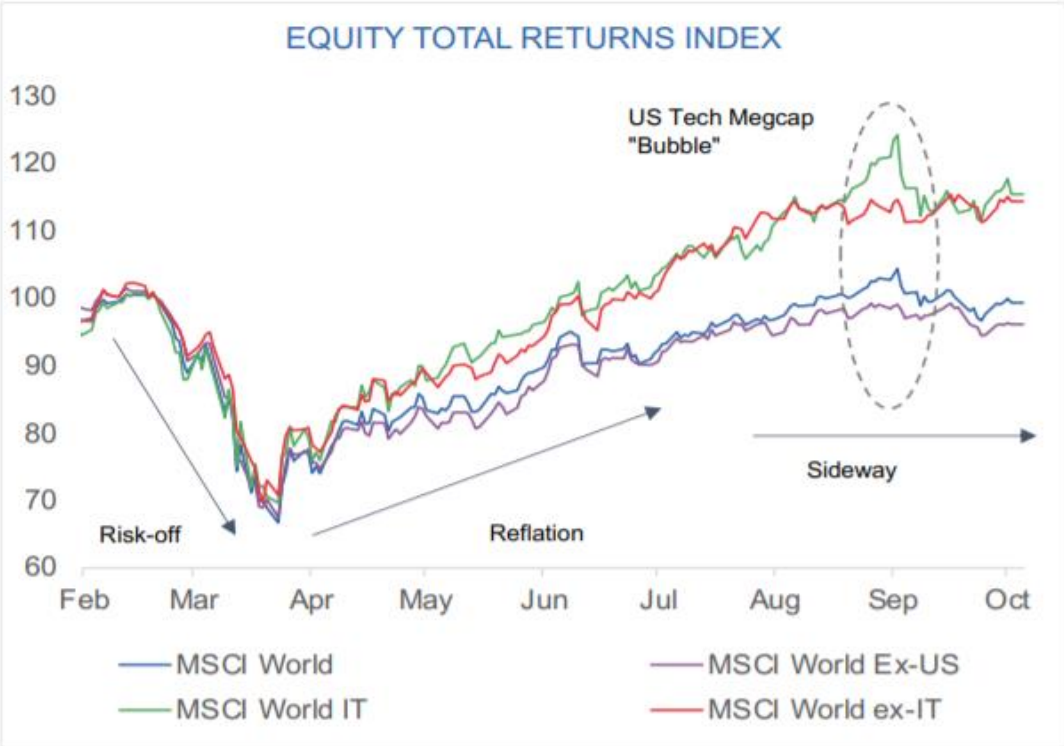
With regard to the US stimulus package, we reiterate our pre-election view that a substantial package will be delivered regardless of the election outcome. It is generally accepted that both the Republicans and Democrats see the need for a fresh stimulus plan with the only areas of uncertainty being the timing of any new package along with its size. We believe that the economy is very much dependent on the support of world governments at present and likely into the near-term future. Any signs of a delay or indeed a reduction in stimulus measures will not be looked upon favourably by investors. In the past month alone we have already seen markets price in an agreement before election day and subsequently sell off when it became clear this would not come to fruition before voting day on November 3rd.

Following in our Government's footsteps, we saw Germany, France, Spain, Italy, Belgium and Greece all announce new lockdowns towards the end of October. As equities on the continent were rocked by the news, these fresh restrictions coupled with fears over a further winter spike in cases pushed German Bund yields (which move inversely to its price) to their lowest levels since March: a negative yielding 64 basis points. German bund yields have since risen sharply along with risk assets across the continent, with the bonds themselves trading their lowest prices in over a month as investors hope for a definitive end to the virus-related struggle that Europe has seen. Should we see positive news-flow surrounding other vaccine candidates this month, we would expect European bonds to fall further from current levels, as the uncertainty of the current stop-start nature of its lockdowns seemingly has an end point in sight.

Even our neighbours in the UK have succumbed to rising cases, where Boris Johnson and his conservative Government announced a full lockdown of the country for four weeks from the start of November.

Equities

In our most recent Quarterly Investment Update we highlighted the fact that although markets as a whole, especially in the US, seem to have more than fully rebounded from their initial February and March sell-offs, this is far from the reality when we take a closer look. Equity indices in the United States have been pulled higher by a handful of large tech names who have rallied sharply as a direct result of companies around the globe shifting to work-from-home schemes and whole communities relying on the latest technology in order to connect during this pandemic.



Source: MSCI, Bloomberg, Dolfin

When we take a look at the above chart, we can see that markets outside of the US and markets excluding the large tech names have actually traded sideways to slightly lower in recent months up until this week's rally, and are still trading at a noticeable discount to their American and tech-inclusive peers. The way we see it at Seaspray, the broad market has in fact not been rallying through all-time highs the way some headlines would have you believe from time to time. We believe that this broad underperformance in most sectors, coupled with ongoing bouts of volatility such as we saw during October and the beginning of November, are presenting us with advantageous longer term entry points in sectors and regions where we see some real potential for growth.

The below graph demonstrates the historically high weighting that the top 5 largest stocks in the S&P 500 index currently have. These 5 names (in order of weighting); Apple, Microsoft, Amazon, Facebook, and Google, have gained hugely from the crisis this year, and are trading in some instances at what can only be described as very stretched price to earnings ratios. However, when we explore other areas of the market, in the US and beyond, we are of the opinion that strong medium-long term entry points are persistently arising, presenting us with favourable risk-reward trades.

Source: Goldman Sachs Investment Research and GSAM

These 5 “mega-cap” technology companies continued to dominate the S&P 500 this year, accounting for 23% of the index by market capitalization. By contrast, the five largest stocks in 2000 only represented 18% of the index. As tech regulation continues to dominate headlines, and as broad economies look to re-open during 2021 we believe investors may benefit from moving down in tech exposure and broadening their portfolios more to international equities, while also exploring alternative sectors for future growth.

Economic Data & Earnings

In terms of US data, GDP jumped 33.1% (annualized) in Q3 and beat expectations and was driven by a large surge in consumer spending. However, it is worth noting that this follows the record fall in Q2, and real GDP is still roughly 3.5% below pre-pandemic levels. Eurozone GDP also beat expectations, but still has not recovered fully to the levels seen earlier in the year. Much of Europe is now under lockdown once again, with some weakness in the services sector gaining attention. Whilst the ECB did not make any changes at its meeting last month, the tone was quite dovish and there is a growing expectation that we will see a loosening of monetary conditions in December. Yields on core eurozone government bonds fell, as key members France and Germany reintroduced national lockdowns with the U.K. following last week with their 4-week nationwide lockdown. As the second wave of the virus takes hold, service sector confidence in the Eurozone is weakening. Whilst the manufacturing PMI data for September held up well, services confidence fell almost two points to 46.2 from 48.0, well below the 50-mark dividing contraction from expansion.

Q3 earnings released towards the end of October from Apple, Amazon, Alphabet, and Facebook failed to assuage market concerns as stocks were led lower initially by the tech sector at the end of the month. Each company beat consensus revenue and earnings forecasts, yet all but Alphabet fell in trading on Friday as investors booked profits and were disappointed by the guidance for the last quarter of the year. At the time of writing, 90% of all S&P 500 companies have now reported earnings for the third quarter and 83% of them have reported earnings above expectations, comparing to the norm of 75%. Furthermore, consensus earnings growth expectations for the quarter have been revised up from a fall of -21% year-on-year to -11%. This is happening for two reasons. Firstly, revenues have been better than expected, and secondly, costs have been cut as companies have adapted to challenging times. Productivity is up 4.1% from a year ago.

With positive surprises across most sectors, European high yield third-quarter earnings so far appear to confirm the trend of recent months: companies are holding up better than had been expected back in the first quarter. Loose monetary and fiscal conditions have helped corporate issuers to amass cash piles through both banks and capital markets. As a result, 2020 is likely to end with realised defaults of no more than 3%, which is remarkable when considering this year's economic shock. With high yield technicals holding steady as we prepare to enter the next phase of the credit cycle, fundamentals and valuations are the main focus. From a fundamentals perspective, it is important to distinguish between those sectors that remain resilient to a Covid world, and those that may be unattractive now but stand to gain significantly from a vaccine breakthrough. For now, caution is warranted in the latter category given that we still have no clear timeline for the widespread use of the vaccine. We need to examine valuations in the context of a range that looks fairly well established. While the continued macro uncertainty sets a plausible lower bound for near-term spread tightening, the necessity of a strong fiscal and monetary response to bridge economies to the end of the pandemic is likely to put a ceiling on any spread widening. Against this backdrop, fixed income investors may want to take advantage of European high yield volatility while it lasts.

Presidential Election

Market participants, who for the most-part had been pricing in a 'blue wave' clean sweep for the Democrats, were wrong-footed last week when it began to emerge that Joe Biden was indeed to be announced the 46th President of the United States, albeit with a split Congress as Republicans maintained control of the Senate. It is now widely accepted that Joe Biden has won the election with world leaders, including former President Bush, quick to offer their congratulations. This outcome has been described by market commentators as a goldilocks scenario for equities, and has helped the asset class on to its best weekly performance in over 6 months. The prospect of a split Congress implies that there will be a smaller stimulus package than previously expected, but there will be a greener agenda. President-elect Biden has said that one of his first actions will be for the US to rejoin the Paris Agreement on climate change. Previously announced tax rises are less likely to happen with a Republican dominated Senate. Meanwhile tighter regulation of technology and pharmaceutical companies may be more difficult to implement.

We acknowledge that Biden may face a tough battle to govern in the years ahead, without a Democratic-controlled Senate, in which large parts of his legislative agenda may now be blocked. Importantly for equities though, the President-Elect will have a harder time passing new Bills such as his plan to hike the US corporate tax rate from 21% to 28%. In his election campaign he had also pledged to introduce a minimum tax rate for large firms of 15% of reported earnings and target corporate tax avoidance by doubling the global intangible low tax income rate. Personal tax rates on higher income earners would also be raised under Biden's plans, all of which would have been far easier and more likely to be passed under a Democratic-controlled Senate.

What we can also report on since the election is that the incumbent President Trump, who during the long and rancorous campaign attacked the integrity of the American voting system, has alleged fraud without providing evidence and called for recounts of votes after losing his early lead on Election Day as mail-in ballots began to be counted, these particular ballots reflecting a Biden majority vote. President Donald Trump and his team have already filed multiple lawsuits in Pennsylvania, Michigan and Georgia, while also demanding a vote recount in Wisconsin. Experts have shown that recounts are highly unlikely to change the outcome of this presidential election as Biden is leading by more than 20,000 votes in Wisconsin, Michigan and Pennsylvania. Georgia could technically go Trump's way but would still not be enough to change the overall outcome.

Trade tensions with China will not end under a Biden Presidency but it is likely that his administration will employ a far less aggressive and combative strategy than his predecessor. While Trump would have continued to push for increased tariffs as part of his trade strategy, Biden will likely try to rebuild some of the relationships with multi-lateral agencies such as the WTO and use those to address disputes such as the ongoing one with China.

We believe a Biden presidency for the next four years will only serve to strengthen the case for ESG-focused companies, an area in which we have discussed in previous monthly investment updates and have been positioning in since pre-Covid this year. We plan to continue to do so on a tactical stock-by-stock basis as opportunities present themselves in the months ahead.

Brexit

The long-standing issue of Brexit also re-emerged last month, with the European Council meeting on the 15th and 16th of October (which was previously set as a key deadline by Boris Johnson) passing without a deal being struck. After negotiations were briefly paused, talks are now intensifying as both sides seek to agree a trade deal before the year-end. Posturing aimed at domestic audiences slowed progress last month, with the European Union beginning legal action against the UK Government as a result of the their Internal Markets Bill, and the UK briefly calling off talks following the European Council summit in mid-October. Our base case remains that a deal will be struck and indeed negotiations that were called off have restarted with renewed vigour. Risks do, however, remain of a breakdown in talks, and any deal is likely to be narrow. Apart from Sterling volatility, Brexit will likely continue to have an impact on sector performance and inflation.

Boris Johnson suffered a defeat in the House of Lords this week over the controversial 'Internal Market Bill'. Cross-party amendments were tabled on Monday to strike out clauses linked to the most contentious part of the Bill, namely part five, which would give the United Kingdom the power to breach the Withdrawal Agreement which they agreed with Europe last year.

Another aspect to now consider on the Brexit front is the recent Biden victory in the US election. In the months leading up to the election, Mr. Biden, who in fact has Irish ancestry, warned that the Good Friday Agreement cannot become a "casualty of Brexit" and said that under his Presidency a US-UK trade deal would be dependent on the peace terms being upheld. His firm message was echoed again this week when he put in a post-election phone call to Downing Street. Biden's diplomatic niceties were reportedly accompanied by an unyielding message on Brexit: do not allow the divorce to destabilise the peace process in Northern Ireland. At home, Minister for Foreign Affairs Simon Coveney has this week said that a Biden presidency may make some difference to the ongoing Brexit negotiations. Coveney went on to add that despite the historically close relationship that the US and UK have enjoyed, this latest political development in the States may give London "pause for thought" to ensure Irish issues are now prioritized as both sides attempt to close out this final phase of the talks.

Vaccine

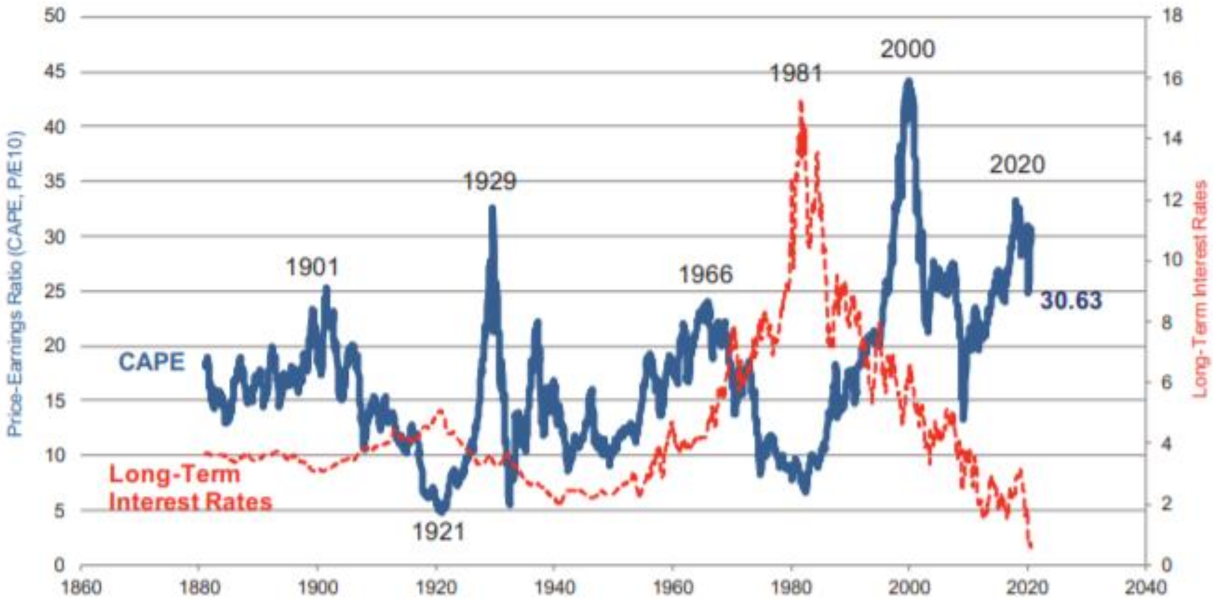
We saw a huge risk-on tone sweep across global markets this week following the announcement from Pfizer and BioNTech regarding their Covid-19 vaccine. The vaccine showed 90% efficacy in its phase 3 human trials, well surpassing the 50% efficacy needed for approval by the FDA in the States. Financials, airlines & travel, energy, and hospitality were some of the areas which benefitted most from the news, with an expected sell-off in tech names who have profited hugely from the pandemic, along with a flight out of sovereign bonds.

The European Commission, who have negotiated with multiple vaccine developers on behalf of EU member states, and have secured 200 million doses with options for more, of Pfizer and BioNTech's vaccine. The EU has already signed deals with Johnson & Johnson, Sanofi, and AstraZeneca for their potentially successful Covid-19 shots.

Market participants of all sizes will continue to watch this space very closely, Pfizer and BioNTech plan to apply to the different regulatory bodies around the world for emergency use of their vaccine this year, and have laid out plans to produce 50 million doses of the drug in 2020 with an impressive 1.3 billion more doses to follow next year. Barring any unexpected delays, we are due to also hear this month the human-stage trial results from two more companies who are attempting to join Pfizer & BioNTech: British-Swedish firm 'AstraZeneca' and the American 'Moderna'. Should these companies respective vaccine candidates prove to be successful, this would indeed serve as a further catalyst for significant upside in equity markets, and would surely make for a speedier global economic recovery as more companies would begin mass manufacturing which would undoubtedly shorten the timeline for widespread global vaccination.

The Hunt for Yield

As a final note, we would like to remind clients of the 'hunt for yield' which, as prudent market participants, we have found ourselves embarking on over the past year. The outbreak of Covid-19 and the subsequent pandemic has acted as the ultimate catalyst, initially causing panic across markets and a global dash for both cash and perceived 'safe-haven' Government bonds. As a result of this move sovereign bond yields were driven toward the zero bound and for the most-part have not even looked like they are beginning to recover. With central banks now committing to 'lower for longer' with regard to their overnight interest rates, we have been faced with a real dilemma when searching for consistent and reliable yield for clients' respective portfolios.



Source: Robert Shiller, Cantor Fitzgerald

In the above chart, which dates all the way back to the 19th century, we can see yield from long-term US Government bonds on the red line, and the 10-year average earnings valuation of the US equity market on the blue line. It is clear from the red line that bond yields in the States are currently at record lows, in addition many European sovereign bonds are in fact priced at negative yields which are of course of no use to our clients on our investment timeframes. Furthermore, banks all across the continent are beginning to join the trend of charging negative interest rates on deposits, to reflect their decreasing profit margins as the ECB amazingly looks at potentially cutting rates into negative territory next month and will likely ease further by way of increased bond-purchasing commitments.

As can be seen by the blue line on the graph, while equity valuations are arguably quite elevated, they could in fact have quite some distance to go in the years ahead before other viable investment options potentially become widely available to us.

At Seaspray, we have constructed a European 'High-Dividend' portfolio which offers our clients an alternative to the negative yielding bonds that are now scattered across the continent. This income alternative, which deliberately has no exposure to any American or Dollar-denominated stocks, is smoothy diversified across every major sector and across nine countries. This new portfolio (below table) offers European investors a circa 4.4% portfolio dividend yield, while also allowing for investors underlying capital to grow in the meantime.

Stock	Sector	Region	Portfolio Weight	Current Dividend yield
Nestlé	Consumer Staples	Switzerland (CHF)	5.00%	2.47%
Novo Nordisk	Health Care	Denmark (Krone)	3.00%	1.85%
SAP	Tech	Germany	2.00%	1.18%
Unilever	Consumer Staples	Netherlands	5.00%	3.10%
Sanofi	Health Care	France	5.50%	3.60%
Iberdrola	Utilities	Spain	5.00%	3.59%
Kone Oyj	Industrials	Finland	5.00%	2.27%
ASML	Tech	Netherlands	2.00%	0.78%
Siemens AG	Industrials	Germany	5.00%	3.51%
Investor AB	Financials	Sweden (Krona)	1.00%	1.60%
LVMH	Consumer Discretionary	France	2.00%	1.15%
Aegon NV	Financials	Netherlands	5.00%	4.84%
NN Group NV	Financials	Netherlands	5.00%	6.82%
Deutsche Post AG	Industrials	Germany	1.00%	2.77%
Covivio SA	Real Estate	Europe	7.50%	7.96%
BMW	Consumer Discretionary	Germany	5.00%	3.89%
BASF	Materials	Germany	5.00%	6.07%
TAG IMMOBILIEN AG	Real Estate	Germany	7.50%	3.08%
Total	Energy	France	6.00%	8.49%
PUBLICIS GROUPE SA	Communication Services	France	5.00%	3.76%
Fortum Oyj	Utilities	Finland	7.50%	6.09%
Allianz SE	Financials	Germany	5.00%	5.77%
			100.00%	**4.46%**

Source: Seaspray Financial - Oct 2020

With banks across the continent starting to join the trend of charging negative rates on cash deposits, and with the benchmark German 10yr Bund still yielding minus 51 basis points even after its sharp sell-off, we truly believe that this European High-Dividend portfolio offers a strong investment case with healthy returns, all things considered.

If you would like to discuss anything raised above or would like a review of your financial position, please do not hesitate to contact us.

Tel: +353 1 70 70 000 or info@seasprayfs.ie

Warning: The value of your investment may go down as well as up and you may lose some or all of the money you invest. Past performance is not a reliable guide to future performance. Investments denominated in a currency other than your base currency may be affected by changes in currency exchange rates.

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