

# L&G Mixed Investment Funds

MONTH IN FOCUS

## THE HEADLINES

- **Joe Biden wins US election...**
- **...positive news on COVID-19 vaccines as the virus continues to spread...**
- **...strong equity returns on US election and vaccine news.**

## MARKET OVERVIEW

In November, we saw a significant reduction in the likelihood of two tail-risk events, the US election and lack of progress on a COVID-19 vaccine. In the US presidential election, Democrat candidate Joe Biden secured enough Electoral College votes to win, although the Senate is looking likely to remain in Republican hands. We will need to wait for the results from the run-off elections for the two Georgia Senate seats in January before we know for sure who will control the US Senate.

In terms of vaccine progress, three manufacturers – Pfizer/BioNTech, Moderna and AstraZeneca/Oxford – have announced much higher efficacy rates for their vaccines than previously expected as well as other details, including storage information and distribution plans for their vaccine. This confluence of news events buoyed risk assets to new highs as investors started to envision a world beyond the housebound, digitally dominated status quo of COVID-19. With this came signs of a rotation into some previously unloved market sectors such as value and cyclical stocks.

## FUND PERFORMANCE REVIEW

The Mixed Investment Funds' returns were positive in November, benefitting from the rally in risk assets. The funds with higher equity exposure fared better than funds with more bonds.

In all funds, we added exposure to UK government bonds. This followed a sharp increase in the yield on UK government bonds after the news on COVID-19 vaccines led to bullish risk market sentiment.

We reduced our exposure to European energy stocks in favour of European telecommunication stocks in income funds as we believe these stocks appear more compelling in terms of future dividends.

We have increased our exposure to the pound sterling while reducing exposure to the euro. We believe the difference in economic impact of the likely outcomes of Brexit negotiations to be narrower, and believe investor sentiment to be excessively negative.

## RECENT PORTFOLIO CHANGES



**UK GOVERNMENT BONDS, US GOVERNMENT BONDS, EUROPEAN TELECOMMUNICATION STOCKS, POUND STERLING**



**CASH, EUROPEAN ENERGY STOCKS, EURO**

## MARKET OUTLOOK

Following the pullback in US and European equity markets ahead of the US election, we decided to upgrade our medium-term view on equities from neutral to slightly positive. Since then, with the continued positive news flow on COVID-19 vaccines, we have seen a reversal in some of the previous dispersion between different equity markets as other sectors start to play catch-up with tech. Despite this recent successful run for equities, we retain our positive view given there is still plenty of room for economies to expand as their recoveries unfold and we believe the economic impact of the recent reintroduction of lockdowns will be temporary.

There are still rumblings from the Trump administration around the outcome of the US election, with the president continuing to contest the result. Despite this, we ultimately expect a smooth transition of power and have now seen communication between the incoming Biden team and incumbent administration commence, in addition to the confirmation of several appointees in President Elect Biden's cabinet. With that in mind, we focus on Brexit negotiations for which the deadline is fast approaching, and the balance between the chance of no-deal and what is priced into markets.

We will continue to monitor virus developments and the associated economic consequences. Signs of economic scarring and bankruptcies as a result of the virus's spread are likely to emerge as emergency fiscal support is withdrawn. With a greater awareness of the effectiveness and potential length of lockdowns, we remain cautiously optimistic on risk assets.

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