Marlborough International

Marlborough fund performance and the COVID pandemic

Marlborough funds have seen a remarkable rebound in performance since the bottom of the COVID-driven global market collapse in March this year, as the table demonstrates:

Marlborough funds of funds	Performance (%)	Sector (%)
Adventurous	33.79	26.12
Balanced	28.21	12.68
Cautious	18.91	5.42
Defensive	13.09	5.42

The performance of the funds of funds has been driven by strong returns from the underlying single strategy funds held in the portfolios:

Marlborough single strategy equity funds	Performance (%)	Sector (%)
UK Micro-Cap Growth	48.82	18.90
Special Situations	46.95	18.90
European Multi-Cap	42.55	20.96
Multi-Cap Growth	40.21	18.90
US Multi-Cap Income	31.15	31.24
Global	27.05	26.12
Multi-Cap Income	23.82	18.90

Data source for tables: FE Analytics, 23/03/2020 to 28/08/2020. All funds P Share Class in GBP. Sectors are Equity International, Mixed Asset Balanced, Mixed Asset Cautious, Equity UK, Equity Europe ex-UK, Equity North America and Equity International.

The Marlborough fund of funds team have been running their portfolios for an average of 20 years. Their combination of deep knowledge and long experience has helped them to be patient when many others were (and still are) losing their heads.

'Advisers who withdrew client funds after the collapse will be under severe pressure as their clients question the justification for that decision. Missing the rebound will only accentuate any sense of loss.'

We are leading exponents of what is commonly described as 'active management' and also strong believers in 'time in the market' being more important than 'timing the market'. This has always been one of our mantras. Many other fund management firms might purport to share that view and it is a philosophy that is easily adopted when market volatility is within 'normal' bounds, where share prices move in an almost random manner daily, but in a generally upward direction over time.

COVID has been a prime example of an 'exogenous shock' - or what Donald Rumsfeld called an 'unknown unknown' - that was not taken into account by economists, analysts and fund managers when making predictions about the near-to-medium-term market outlook. Market shocks like COVID hit us when we least expect them. The depth of a market fall is based on news rather than fundamentals, while recoveries often happen so quickly we do not recognise them as such until they are over.

This has been the experience with COVID. Even as the death toll rose in China during February, the S&P 500 and Nasdaq indices were hitting record highs and the virus was still being seen as a problem for China rather than an obvious threat to the global economy. However, February 24th saw a thousand-point drop on the Dow Jones; only four weeks later global equities had fallen by around 30%.

Despite this, Marlborough's managers stuck to their faith in the resilience of the companies featuring in the portfolios, and this has borne fruit.

Where we are now

The COVID pandemic has produced over 25 million confirmed infections as I write this note, with related deaths approaching 900,000. In those parts of the world where COVID arrived late, e.g. Latin America, infection and death rates naturally appear much higher; however, the European and Asian pattern of accelerated early infections and rapidly falling transmission post-lockdown is likely to be repeated.

More positively, reported new cases around the world seem to have peaked at the end of July at around 290,000 per day. Most importantly, the death rate has plummeted. In the UK, for example, at this time of year around 9,000 deaths are typically recorded each week. In April, that figure averaged just under 20,000. August is back to normal, averaging 9,100 per week with less than 140 deaths associated with COVID, according to the Office for National Statistics.

Lockdowns seem to have worked. However, we have seen steps to ease lockdown strategies despite a resurgence of cases, e.g. in the US, that have been entirely motivated by economic concerns and political imperatives. This underlines the current dilemma faced by governments: honouring a duty to protect the short-term health of a relative minority of citizens, versus managing the longer-term impacts of lockdown and economic recession on society as a whole. Economies around the world have been in various degrees of shutdown for over five months, and corporate earnings (with some significant exceptions like Apple, Netflix and Amazon) and economic growth figures for the first half of the year are going to be dreadful. UK GDP has collapsed by 22% since Q4 2019, yet the UK government's Job Retention Scheme has managed to limit 'official' unemployment to less than 4% in the UK, roughly where it was at the end of 2019.

Given a litany of reported disasters over the past five months, readers could be forgiven for imagining the worst about the performance of their portfolios. If these were hypothetical conditions, observers betting on a bull market might have had their sanity questioned. Yet anyone taking a perceived 'common sense' view amid this political and economic mayhem and taking to cash in late March will now be feeling a deep sense of regret. Despite unprecedented negative economic conditions, equity markets, particularly those in the US, have shown an astonishing pace of recovery.

What is more, positive signals on recovering economies are now coming through strongly. In the UK, new company incorporations have recovered and are above the levels seen in Q3 2019. Footfall on retail shopping parks has recovered to 90% of the total in the same week in 2019; given increased online shopping and the fact that non-essential shops only reopened in mid-June, that is a remarkable figure. Similarly, light commercial and heavy goods vehicle traffic is back to the same level it was in February, before the COVID outbreak took hold.

However easily pessimists might argue that this lightning recovery makes no sense given the gloomy outlook, yet again 'time in' the market has mattered more than 'timing' the market. As venerated economist John Maynard Keynes is said to have opined: "The market can stay irrational longer than you can stay solvent". So, what is driving these gains? Is this exuberance irrational, and will it all end in tears?

Certainly, explaining market performance is easier than predicting it. Long-term, rising markets simply reflect the 'triumph of the optimists'. COVID has not been as virulent (outside large urban population centres) as feared; and however unpalatable the facts, 98% of COVID-related deaths have been among those over age 50. The 'whatever it takes' mentality of governments and central banks has seen trillions of dollars, pounds and euros pumped into the economic system. Cash on deposit has an absolute return of virtually zero, so any reversal of the severe risk aversion that dominated investors' thinking in March is likely to find some cash reallocated to riskier assets. There is also a 'value' tradition that buying equities when all seems lost generates higher returns than buying at a record high.

As for 'experts', take economists' and others' forecasts with rather more than a shovel-full of salt. Economists like to use models of the world to predict likely outcomes - and if we ask economists for decimal-point precision they will provide it - but predictive models are always wrong. They may be useful for explaining the past or pointing out potential unintended consequences of otherwise well-meaning financial initiatives, but no economic forecast can perform the feats its users have come to expect.

No one can forecast the future, but economists are especially useless at it. As the months pass, actual numbers will be revealed as companies publish their accounts, particularly at the year-end where the full impact will have become clear. That may not be pretty, but as the rebound in April demonstrates, 'time in' the market is more advantageous than 'timing' the market.

Our firm belief is that patience will remain a virtue however events unfold.

Long-term investors should be no more concerned with analysis or justification for rising asset prices, than fearing falling ones. To paraphrase Kipling, meet with Triumph and Disaster, and treat those two impostors just the same.

Graham Bentley 01/09/2020

Risk Warnings

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