

The SpaceX Factor

by Alex Harvey, CFA

On Saturday night at 22:11 hours I was fortunate enough to see the International Space Station (ISS) blazing across the darkening London skyline at 17,000mph. For budding astronomers the Star Walk app points out where and when to look, and with it orbiting over 15 times per day you've plenty of opportunity to view it (the stunningly clear UK skies obviously help, as does the night sky to spot it reflecting the sun from above the horizon). The reason for my keen interest on Saturday however, was to catch a glimpse of the SpaceX rocket carrying two astronauts to the ISS, supposedly visible to the naked eye. Sadly, I failed to spot it, but I think it will go down in history as a seminal event in the history of space exploration as a private US company has for the first-time ferried NASA astronauts to the heavens.

The mechanics of space travel and earth orbit work precisely because of the predictability that the laws of physics impose on objects in space. I can roll forward literally to the year 2400 in the Star Walk app and it will show me exactly what I will see, in any direction, at any time. If only we were afforded such certainty in financial markets! The last few months are testament to the fact that we can't control risk, but that we can and should manage for it. Like any SpaceX payload whose cargo is on a journey, the destination and time of arrival is largely known, but the path to it is full of potential hazards. Curveballs are not just earthly phenomena. NASA's margin for error is zero which is why so much preparation, planning and testing happens ahead of any mission launch. We as investors are afforded a few more degrees of freedom, but like NASA we want to reduce uncertainty as much as possible to ensure a smoother flight and the eventual safe arrival at the destination.

In our strategic portfolio modelling we run millions of simulations to derive a long-term portfolio allocation that has the highest probability of achieving our client's long-term investment goal. We concurrently manage for shorter-term drawdown risk which we know most clients have limited tolerance. We know that if our clients stay invested, they are likely to reach their financial goals, so it's important they don't de-risk at what often proves with hindsight to be a compelling buying opportunity. Of course, NASA's journeymen have no such choice; once onboard there's no getting out halfway through!

As well as all the pre-launch planning - akin to our strategic portfolio modelling - there is a huge amount of equipment testing and manoeuvre practising that goes into managing for the actual journey. Astronauts work for hours underwater on a replica of the ISS in the Neutral Buoyancy Laboratory (ie. a pool) at NASA's Johnson Space Center in Houston. They plan for different eventualities to mitigate risk as much as possible when it comes to the actual spacewalk. It is not dissimilar to planning for the 'known unknowns' that inevitably crop up in our line of work.

Against a rapidly changing investment landscape, and with bond yields at ever lower levels, it would be unwise to rely solely on observed historical data to inform expectations about future cross asset class returns. We believe that robust scenario testing is an important tool in managing future portfolio paths that may look like past episodes, but which are unlikely to perform the same way. We cannot predict when performance will peak and trough, but we know at times it will. By keeping our eyes open to all eventualities, we stand a greater chance of not missing the proverbial rocket.

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Market Focus

- » Widespread protests and riots are taking place across the US
- » Trump announced that Hong Kong would no longer receive a special trade status
- » Brent crude rose 0.6% ending the week at \$35.3 a barrel
- » Gold fell 0.3% ending the week at \$1730.3 an ounce

US

- » President Trump signed an executive order that seeks to limit liability protections that social media companies enjoy after Twitter began selective fact checks of his posts on the platform
- » President Trump is revoking Hong Kong's special trade status, meaning businesses in the region will now be treated in the same manner as Chinese companies
- » US investment grade credit issuance reached \$1 trillion for 2020 over the past week, 92% above the amount raised at this point last year
- » The US's top infectious disease expert Dr. Fauci reported that a vaccine may be available by November/December
- » US equities rose 3.0% over the week whilst US Treasuries returned -0.1%

Europe

- » Christine Lagarde, President of the ECB, has indicated that output is due to contract between -8 and -12% this year in the euro area. This is in line with the more pessimistic forecasts for the region
- » The European Commission proposed a €750 billion recovery plan that will provide a combination of grants and loans across Europe's hardest hit economies
- » France's President Macron announced measures to aid the country's autos sector and the German government approved a €9 billion bailout for the airline Lufthansa

UK

- » Brexit negotiations between the UK and EU will continue this week via videoconference
- » The BoE is expected to move to negative interest rates in early 2021, indicated by investors pricing in this change, suggesting that the economic ramifications of the pandemic will be more significant than previously expected
- » UK equities gained 1.4% over the past week, whilst in fixed income markets, gilts ended the week flat and corporate bonds returned 0.9%.

Rest of the World/Asia

- » China's official manufacturing PMI for May printed 50.6 whilst the non-manufacturing figure printed 53.6
- » Hong Kong's Chief Executive Carrie Lam issued an open letter asking citizens to support the new national security legislation which has sparked a resurgence in protests
- » Japan announced more stimulus measures, the latest being ¥230 trillion. The cumulative packages represent around 40% of Japan's annual GDP

Asset Class / Region	Currency	Cumulative returns			
		Week ending 29 May	Month to date	YTD 2020	12 months
Developed Markets Equities					
United States	USD	3.0%	4.7%	-5.2%	10.9%
United Kingdom	GBP	1.4%	3.1%	-18.9%	-13.4%
Continental Europe	EUR	3.6%	4.1%	-12.5%	-0.8%
Japan	JPY	5.8%	6.8%	-8.0%	4.5%
Asia Pacific (ex Japan)	USD	3.0%	-0.3%	-13.2%	-1.7%
Australia	AUD	4.7%	4.4%	-12.7%	-7.3%
Global	USD	3.7%	4.8%	-8.2%	5.9%
Emerging Markets Equities					
Emerging Europe	USD	4.2%	8.0%	-24.4%	-8.4%
Emerging Asia	USD	2.8%	-0.3%	-10.8%	4.0%
Emerging Latin America	USD	6.4%	6.4%	-38.5%	-30.9%
BRICs	USD	3.3%	0.5%	-14.3%	-1.0%
China	USD	2.4%	-0.5%	-5.0%	12.1%
MENA countries	USD	0.6%	-0.1%	-18.7%	-16.3%
South Africa	USD	-1.8%	2.0%	-31.3%	-24.8%
India	USD	6.7%	-3.2%	-25.5%	-24.3%
Global emerging markets	USD	2.9%	0.8%	-16.0%	-3.1%
Bonds					
US Treasuries	USD	-0.1%	-0.3%	9.1%	12.7%
US Treasuries (inflation protected)	USD	0.1%	0.2%	5.2%	9.2%
US Corporate (investment grade)	USD	0.7%	1.6%	3.0%	10.7%
US High Yield	USD	1.8%	4.4%	-4.7%	1.1%
UK Gilts	GBP	0.0%	0.0%	10.5%	13.4%
UK Corporate (investment grade)	GBP	0.9%	0.9%	1.6%	7.2%
Euro Government Bonds	EUR	0.3%	0.1%	1.0%	4.2%
Euro Corporate (investment grade)	EUR	0.8%	0.2%	-2.5%	-0.1%
Euro High Yield	EUR	2.5%	2.8%	-7.1%	-2.0%
Japanese Government	JPY	-0.3%	-0.5%	-0.6%	-0.5%
Australian Government	AUD	0.0%	0.1%	4.0%	5.7%
Global Government Bonds	USD	0.6%	0.0%	4.1%	7.5%
Global Bonds	USD	0.9%	0.6%	2.7%	6.7%
Global Convertible Bonds	USD	2.1%	5.5%	1.8%	9.4%
Emerging Market Bonds	USD	0.4%	6.2%	-2.1%	3.7%

Source: Bloomberg. Past performance is not indicative of future returns.

Asset Class / Region	Currency	Cumulative returns			
		Week ending 29 May	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	4.6%	0.1%	-21.2%	-14.8%
Australian Property Securities	AUD	5.9%	7.0%	-20.7%	-21.7%
Asia Property Securities	USD	3.7%	-4.0%	-20.5%	-17.1%
Global Property Securities	USD	4.8%	0.3%	-21.9%	-14.4%
Currencies					
Euro	USD	1.9%	1.5%	-1.2%	-0.3%
UK Pound Sterling	USD	1.2%	-2.1%	-7.1%	-2.4%
Japanese Yen	USD	-0.2%	-0.8%	0.7%	1.5%
Australian Dollar	USD	1.7%	1.8%	-5.5%	-3.9%
South African Rand	USD	0.6%	5.2%	-20.5%	-16.2%
Swiss Franc	USD	1.1%	0.5%	0.5%	4.7%
Chinese Yuan	USD	-0.1%	-1.0%	-2.4%	-3.1%
Commodities & Alternatives					
Commodities	USD	2.6%	12.6%	-28.4%	-25.7%
Agricultural Commodities	USD	1.2%	2.2%	-11.8%	-10.4%
Oil	USD	0.6%	39.8%	-46.5%	-49.1%
Gold	USD	-0.3%	2.5%	13.6%	34.9%
Hedge funds	USD	0.7%	1.4%	-2.9%	2.9%

Source: Bloomberg. Past performance is not indicative of future returns.

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