# 2020 Scorecard : Who Won?

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Millions of words have already been written about the effects of COVID-19 on every aspect of life: health, social, political, economic, financial. This note does not explore these areas which have been so comprehensively discussed by so many, with more no doubt to come. This month we are keeping it simple and presenting a snapshot of the performance of managed funds across the key sectors and asset classes.

To do this we looked at 15-20 of the largest products in each sector and aggregated the returns for calendar year 2020. The results are in the table below and speak for themselves:

| Category | Sector | 2020 Return |
|---|---|---|
| AEQ Growth | Equity Australia Large Growth | 13.65% |
| AEQ Value | Equity Australia Large Value | -3.65% |
| IEQ Large Cap | Equity World Large Blend | 3.25% |
| IEQ Small Cap | Equity World Mid/Small | 6.76% |
| AEQ Large Cap | Equity Australia Large Blend | 3.19% |
| AEQ Small Cap | Equity Australia Mid/Small Blend | 15.48% |
| AEQ Micro Cap | Equity Australia Micro | 22.74% |
| AFI - Duration | Bonds - Australia | 5.17% |
| High Yield Credit | High Yield Credit | 4.04% |
| Managed Futures | Alternative Strategies - Managed Futures | 1.66% |
| Infra | Equity Global Infrastructure - Currency Hedged | -5.77% |
| A-REITs | Equity Australia Real Estate | -5.40% |
| G-REITs | Equity Global Real Estate | -10.09% |
| Equity Derivative Income | Equity Australia Derivative Income | -1.65% |
| Emergina Markets | Equity Emerging Markets | 4.94% |
| IEQ Growth | Equity World Large Growth | 17.28% |
| IEQ Value | Equity World Large Value | -2.29% |
| Multisector Aggressive | Multisector Aggressive | 3.62% |
| Multisector Balanced | Multisector Balanced | 5.93% |
| Multisector Moderate | Multisector Moderate | 3.69% |

Nevertheless, we will do a little speaking of our own. Many people prefer to absorb information via pictures and diagrams rather than tables and numbers – so here is the story of 2020:

(**Note:** all the charts that follow are total return growth of $100 from end Dec-2019 to end Dec-2020)

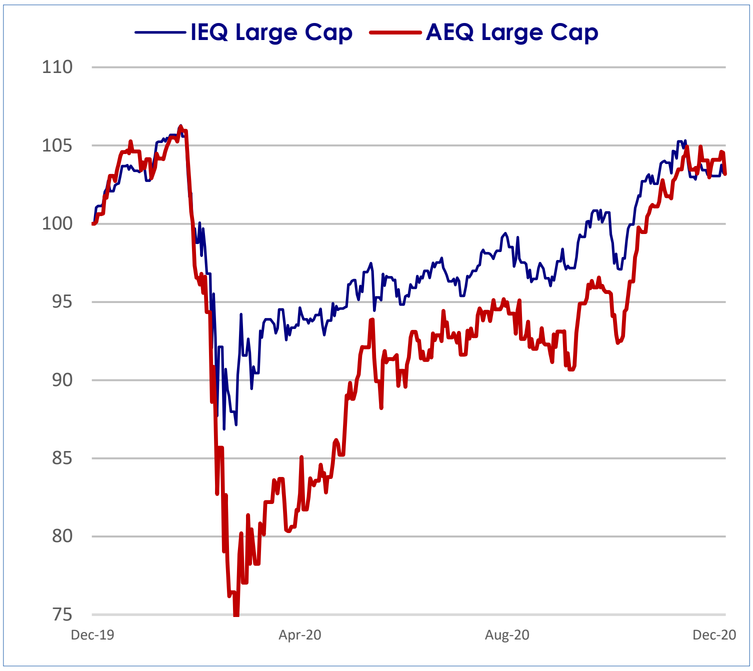
## Stocks

### Australia vs The World – Lets Call it a Tie

The comparison in the chart below is of style-neutral funds, so theoretically not impacted by the growth vs value tussle – we'll get to that later.

Australian and International equities essentially finished the year line-ball which may be counter intuitive to all the headlines you've been reading. The media stories about foreign markets (particularly the US) "beating" Australia is really a story of growth thrashing value, and the lack of growth stock representation in Australia.

It is notable that while the end-point was very similar, the journey was not. Australia had a much deeper drawdown (down 27%) than the world (down 13%). So to catch up by the end of the year, Australia posted a much bigger rally - 41.4% vs 18.9%.




## Growth vs Value – Not Even Close!!

How long has there been bemoaning about value persistently underperforming growth? How long has there been the thought 'this can't keep going on – a resurgence in value must be due soon'? Well – it didn't happen in 2020, In fact it got worse, much worse. COVID-19 actually turbo-charged many of the 'techy' growth stocks that were already on a tear prior to its arrival. Forget concerts and theatre, in home entertainment was the order of the day (Netflix, anything streaming, anything gaming). Work from home – tech hardware and software for the home office (Microsoft, Apple etc.). Don't meet people, stream people (Zoom, Microsoft Teams, Google Meet). Help sick and vulnerable people - find a test, find a treatment, find a vaccine (health sector, biotech, pharmaceuticals). Massive government stimulus that supported all these things. Interest rates that don't know the meaning of the word "floor". Old-fashioned smoke-stack sectors didn't stand a chance! It's a global phenomenon, with the US leading and Australia along for the ride.

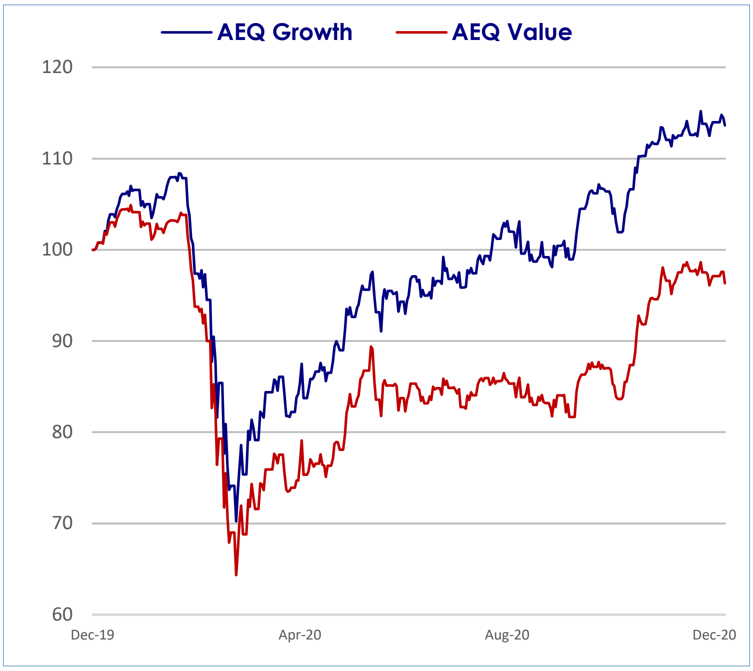
| | Drawdown | Recovery | Total |
|---|---|---|---|
| **AEQ Growth** | -29.8% | 61.8% | **13.6%** |
| **AEQ Value** | -35.7% | 49.7% | **-3.7%** |

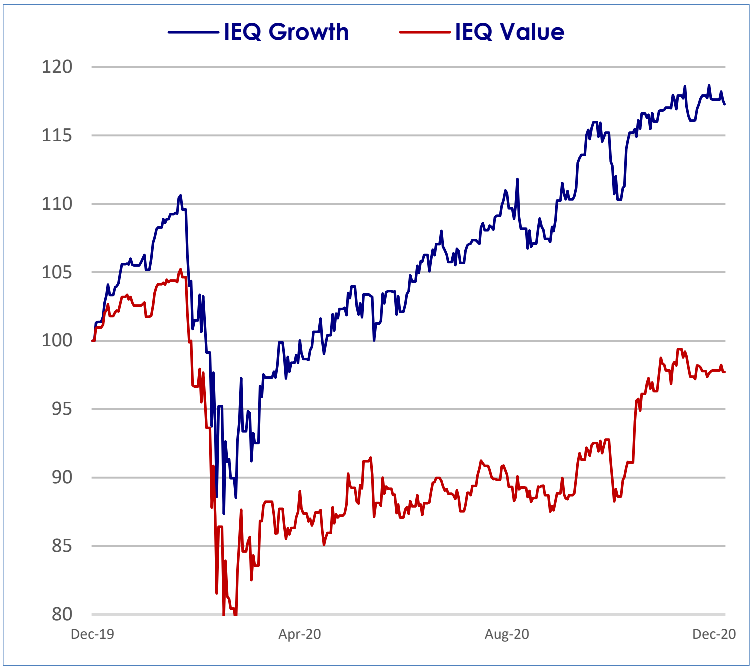
17% difference for the year! Negative vs Very Positive

| | Drawdown | Recovery | Total |
|---|---|---|---|
| **IEQ Growth** | -12.7% | 34.3% | **17.3%** |
| **IEQ Value** | -20.7% | 23.3% | **-2.3%** |

Almost 20% difference for the year! Negative vs Very Positive. One year! Same Asset class!

Here's an interesting fact, unlike all the other sectors looked at so far, growth had both a **smaller drawdown** and a **stronger recovery**. Undoubtedly a darling of the markets.

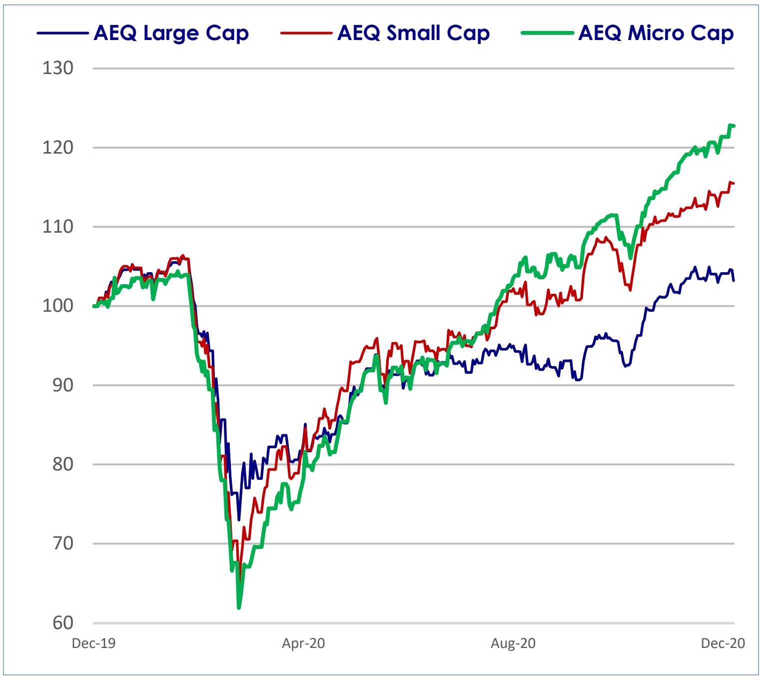



## Size – Big is Not Beautiful

The smaller the better – Micro Cap beat Small Cap and Small Cap beat Large Cap. The "conventional" risk-return playbook went through its paces. "Riskier" markets (i.e. small) had the worst drawdowns and better recoveries. MicroCap was up a whopping 98% from the bottom!

| | Drawdown | Recovery |
|---|---|---|
| **AEQ Large Cap** | -27.0% | 41.4% |
| **AEQ Small Cap** | -35.5% | 79.0% |
| **AEQ Micro Cap** | -38.1% | 98.3% |




The same pattern held for International markets:

| | Drawdown | Recovery |
|---|---|---|
| **IEQ Large Cap** | -13.1% | 18.9% |
| **IEQ Small Cap** | -24.1% | 40.7% |

## DM vs EM – Did you think EM would win?

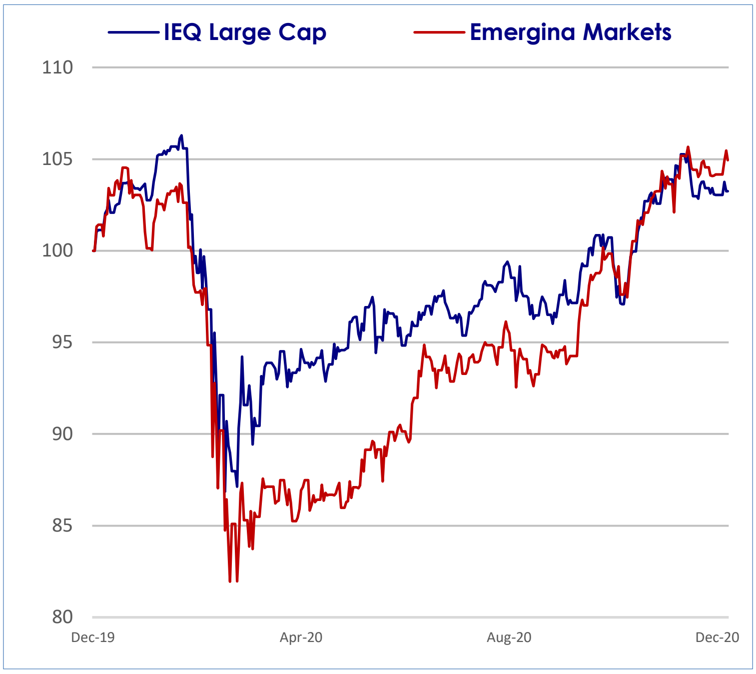
Well it did! Not by a lot – 4,9% return for EM vs 3.2% for DM… and EM had a worse drawdown with a better recovery.

| | Drawdown | Recovery |
|---|---|---|
| IEQ Large Cap | -13.1% | 18.9% |
| Emergina Markets | -18.0% | 28.0% |

Early on in 2020 the view on EM was relatively poor, in no small measure due to an expectation that lack of health infrastructure and resources would see COVID having a greater impact. Subsequently, it appears the reverse has been the case. Developed economies, led by the US, in aggregate appear to have had markedly poorer outcomes in terms of cases and deaths – both in absolute terms and on a per capita basis. (There is a country specific breakdown at the end of this note).

| Location | EM | DM | EM as % of DM |
|---|---|---|---|
| popData2018 | 4,286,963,286 | 862,016,088 | 497.3% |
| Cases | 26,142,092 | 37,998,849 | 68.8% |
| Cases / 100k | 932.2 | 3,481.5 | 26.8% |
| Deaths | 612,112 | 758,908 | 80.7% |
| Deaths / 100k | 28.0 | 78.0 | 35.9% |

*Source: Our World in Data website and SQM calculations*



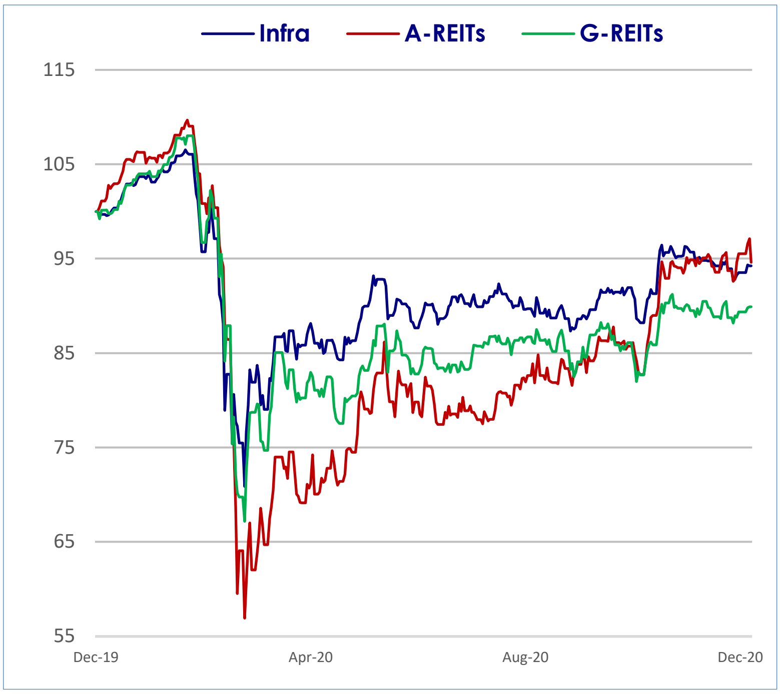

## Property- the Losers of 2020

Infrastructure, A-REITs, G-REITs - these three property categories were the worst performers of the sectors assessed.

The best of a bad bunch was Infrastructure which, while it slightly underperformed A-REITs (-5,8% vs -5,4%) had a much smaller drawdown (-29.1% vs -43.1%). While G-REITs drawdown was in the middle of the pack at -32,8%, its total return was almost twice as bad at -10.1% - the only sector to be down by double digits for 2020.

Simply put – property in all its forms is a massively costly asset that requires high occupancy and utilisation rates to make money. COVID-19 laid waste to those usage rates. Hopefully successful and widespread vaccination will see those rates recover.

| | Drawdown | Recovery | Total |
|---|---|---|---|
| **Infra** | -29.1% | 33.0% | -5.8% |
| **A-REITs** | -43.1% | 66.3% | -5.4% |
| **G-REITs** | -32.8% | 33.8% | -10.1% |

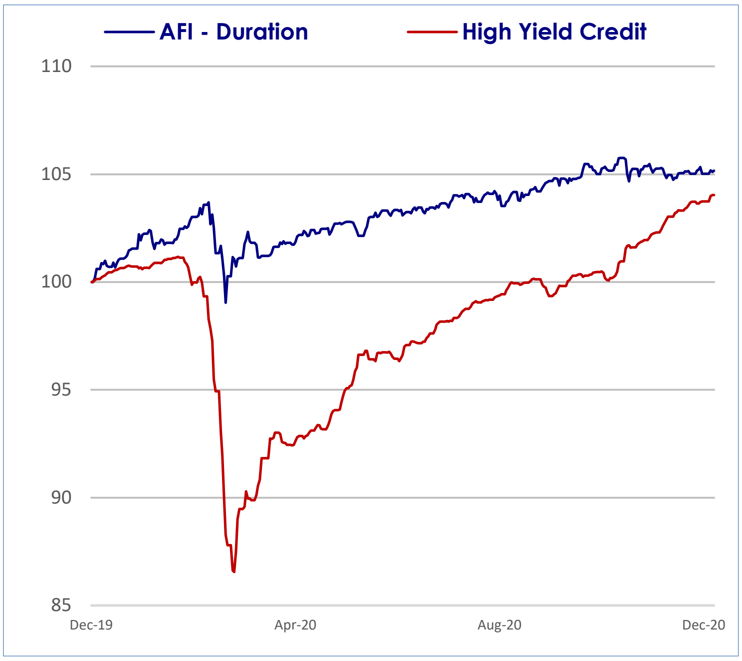



## Fixed Income – Duration Beat Credit by a Nose

Of course interest rates fell! Central banks haven't met a bond that didn't like or want to buy. Controlling the level of cash rates used to be their job. Now it's the level of cash rates, the level of the entire yield curve, the shape of the yield curve, and even the level of credit spreads!

Duration based products did very well to post an average 5.2% return for the year, given the low yields they were starting with. They also did what they are **supposed** to do in times of crisis – be defensive! A drawdown of a mere 1% versus over 13% for high yield credit. A powerful reminder of the difference between interest rate duration and credit duration.

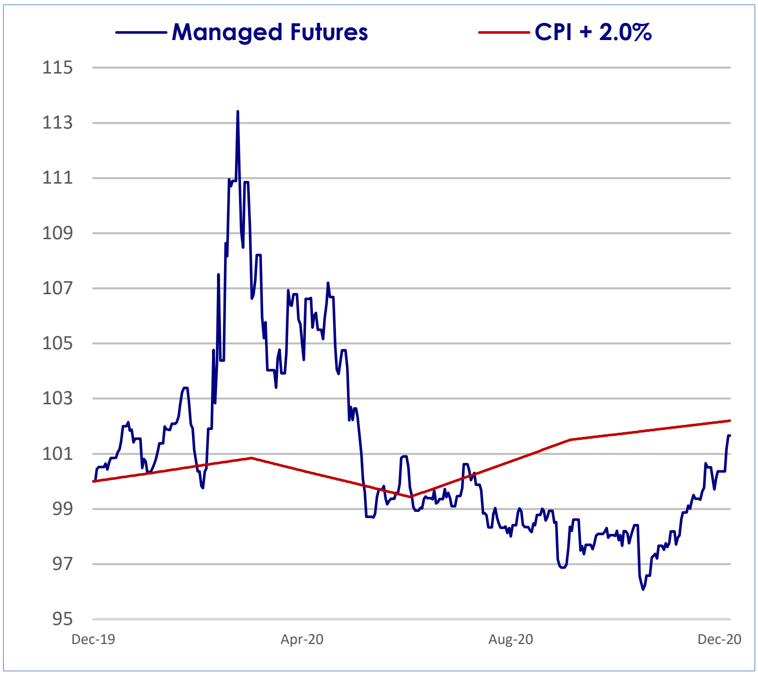
| | Drawdown | Recovery | Total |
|---|---|---|---|
| **AFI - Duration** | -1.0% | 6.2% | 5.2% |
| **High Yield Credit** | -13.4% | 20.2% | 4.0% |




## Managed Futures – Started Strong, Ended Weak

Managed futures picked up and ran with the trend well in the early stages of the pandemic. But it has been pretty much all downhill since then. A modest recovery in the last part of 2020 saw this sector post a meagre 1.7% return along with quite a wild ride.

| | Drawdown | Recovery | Total |
|---|---|---|---|
| **Managed Futures** | -3.9% | 5.8% | 1.7% |
| **CPI + 2.0%** | -0.6% | 2.8% | 2.2% |

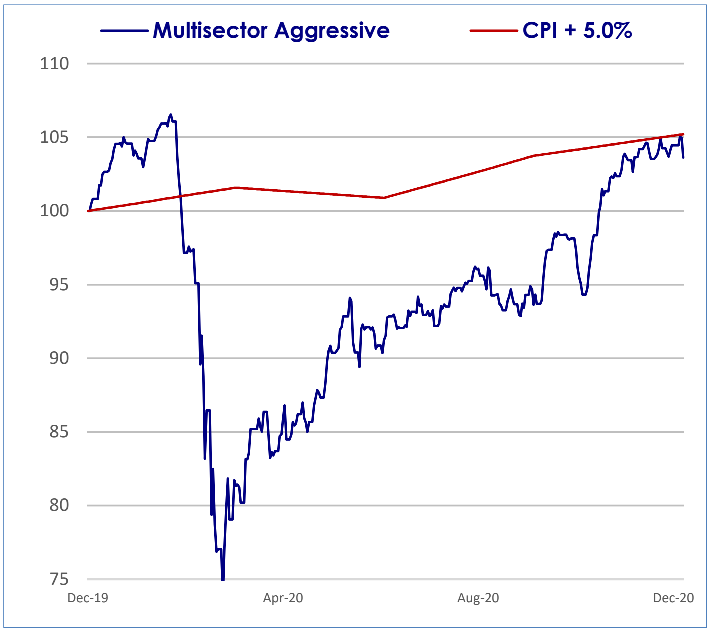


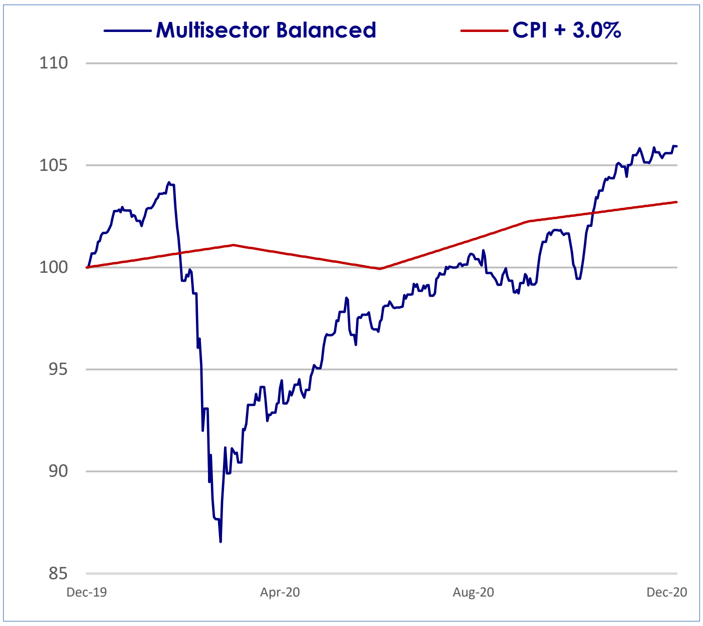
## Multi Sector – Consistent with Risk Profiles

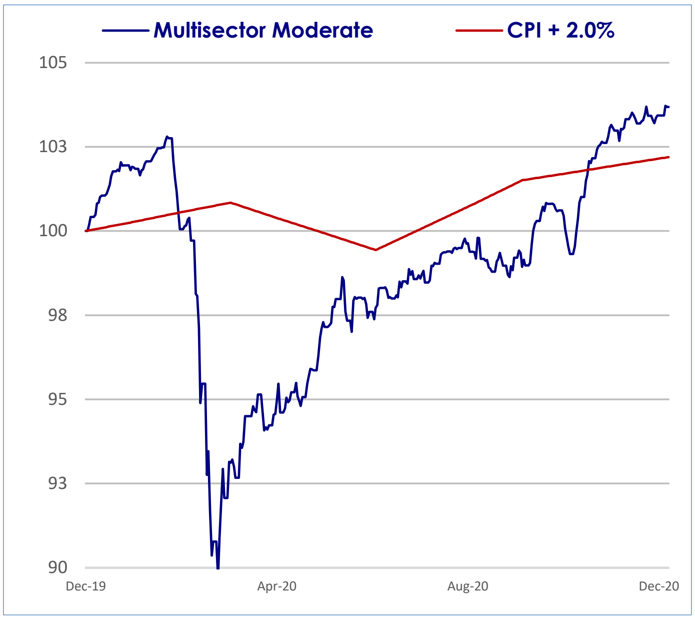
The main Multi Sector categories behaved mostly in line with what you would expect from their relative risk. The riskier the category, the higher the drawdown, higher the recovery, and higher the return.

The only exception was Multi Sector Aggressive, which had higher drawdown and higher recovery but DID NOT post a higher return (the other two sectors did better). That's what risk is – high risk means sometimes you get lousy outcomes.

| | Drawdown | Recovery | Total |
|---|---|---|---|
| **Multisector Aggressive** | -26.2% | 40.4% | 3.6% |
| **Multisector Balanced** | -13.5% | 22.4% | 5.9% |
| **Multisector Moderate** | -10.3% | 15.6% | 3.7% |






## Appendix – COVID Statistics for 10 EM and 10 DM Countries

| EM | | 14-Jan-21 | 14-Jan-21 | 14-Jan-21 | 14-Jan-21 |
|---|---|---|---|---|---|
| **Location** | **popData2018** | **Cases** | **Cases / 100k** | **Deaths** | **Deaths / 100k** |
| China | 1,439,323,774 | 97,448 | 6.8 | 4,796 | 0.3 |
| India | 1,380,004,385 | 10,527,683 | 762.9 | 151,918 | 11.0 |
| Indonesia | 273,523,621 | 869,600 | 317.9 | 25,246 | 9.2 |
| Pakistan | 220,892,331 | 514,338 | 232.8 | 10,863 | 4.9 |
| Brazil | 212,559,409 | 8,324,294 | 3,916.2 | 207,095 | 97.4 |
| Nigeria | 206,139,587 | 105,478 | 51.2 | 1,405 | 0.7 |
| Bangladesh | 164,689,383 | 525,723 | 319.2 | 7,849 | 4.8 |
| Russia | 145,934,460 | 3,459,237 | 2,370.4 | 63,016 | 43.2 |
| Mexico | 128,932,753 | 1,588,369 | 1,231.9 | 137,916 | 107.0 |
| Ethiopia | 114,963,583 | 129,922 | 113.0 | 2,008 | 1.7 |
| **Total** | **4,286,963,286** | **26,142,092** | **932.2** | **612,112** | **28.0** |

| DM | | 14-Jan-21 | 14-Jan-21 | 14-Jan-21 | 14-Jan-21 |
|---|---|---|---|---|---|
| **Location** | **popData2018** | **Cases** | **Cases / 100k** | **Deaths** | **Deaths / 100k** |
| United States | 331,002,647 | 23,314,521 | 7,043.6 | 388,697 | 117.4 |
| Japan | 126,476,458 | 310,734 | 245.7 | 4,119 | 3.3 |
| Germany | 83,783,945 | 2,015,235 | 2,405.3 | 45,207 | 54.0 |
| UK | 67,886,004 | 3,269,757 | 4,816.5 | 86,163 | 126.9 |
| France | 65,273,512 | 2,909,723 | 4,457.7 | 69,452 | 106.4 |
| Italy | 60,461,828 | 2,336,279 | 3,864.1 | 80,848 | 133.7 |
| Spain | 46,754,783 | 2,211,967 | 4,731.0 | 53,079 | 113.5 |
| Canada | 37,742,157 | 693,658 | 1,837.9 | 17,559 | 46.5 |
| Australia | 25,499,881 | 28,669 | 112.4 | 909 | 3.6 |
| Netherlands | 17,134,873 | 908,306 | 5,300.9 | 12,875 | 75.1 |
| **Total** | 862,016,088 | 37,998,849 | 3,481.5 | 758,908 | 78.0 |

*Source: Our World in Data website and SQM calculations*

**For further information:**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