

# Marcus Today SMA | July 2020 Update



## Marcus Today SMA Monthly – July

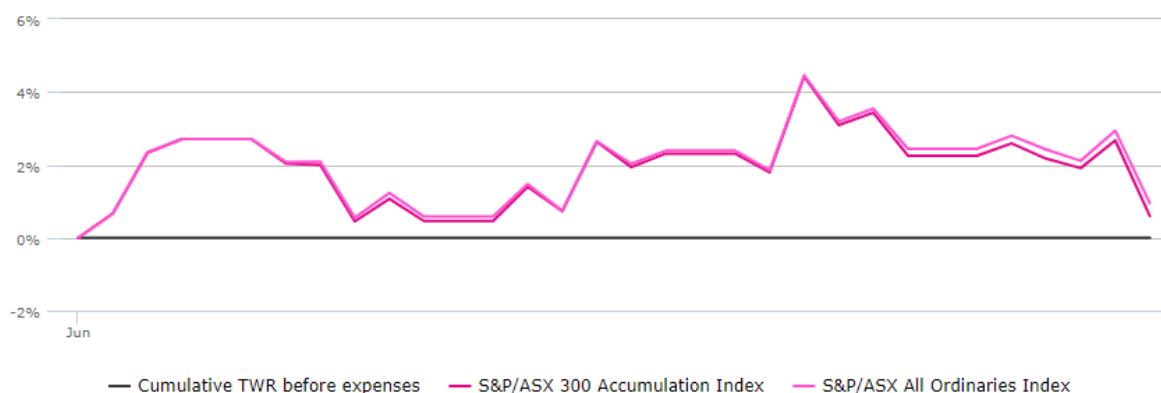
Plenty of noise without much action. Despite threatening to break down and then up, the market kept heading sideways through July.

### FUND PERFORMANCE

#### MARCUS TODAY GROWTH SMA (MT0001)

Periods to 31 July 2020	1 mth	3 mths	1 yr	2 yrs p.a.	Since inception p.a.
Portfolio return before expenses (TWR)	-	<b>4.47%</b>	<b>5.19%</b>	<b>3.53%</b>	<b>7.5%</b>
S&P/ASX 300 Accumulation Index	0.6%	7.77%	-9.74%	1.1%	6.53%
S&P/ASX All Ordinaries Index	0.95%	8.23%	-12.16%	-2.45%	2.66%

Cumulative returns over time



The **Marcus Today Growth SMA spent July unchanged thanks to its 100% cash weighting**. The ASX 300 Accumulation index rose 0.6% over the month. Over the past 12 months the SMA is up 5.19% - outperformance of 14.93% over the benchmark, which is down 9.74% for the period.

We were thrown a few curveballs through the month, with the market threatening to break higher before moving back down. Funnily enough sitting in cash results in a greater level of research, stock monitoring and sleepless nights as we debate the next move.

The move to cash was made to protect your capital in extraordinary times where we saw the risks present far outweigh the potential return. We remain comfortable with that decision, though see the “precipitous” moment has passed, and as such we have started to edge back into the market.

Locally the Australian economic outlook is about as gloomy as it can get, but **the stock market always looks ahead of time**. Some of the best-performing stocks recently have been those that should be collapsing on the back of a lockdown (notably travel and energy) but instead, they bottomed on expectations that this might be as bad as the economic picture gets. In which case there is more of a chance of improvement than deterioration.

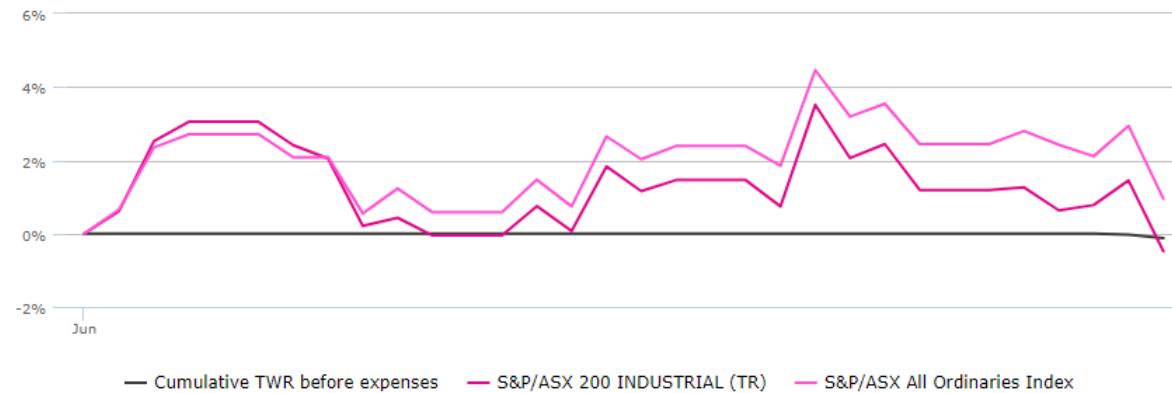
In response to this we have initiated positions in stocks that are set to get a boost from an improvement in economic sentiment. These include stocks in the beaten down **Energy Sector**, travel agents **WEB** and **FLT**, retailer **HVN**, fertiliser and chemical manufacturer **IPL** and gaming operator **ALL**.

As we move through what will no doubt be a volatile results season, we remain on the lookout for opportunities, with a preference for “value” plays, rather than chasing “frothy” sectors such as technology or gold. **The cash weighting in the SMA currently sits around 70%**.

## MARCUS TODAY EQUITY INCOME SMA (MT0002)

Periods to 31 July 2020	1 mth	3 mths	1 yr	2 yrs p.a.	Since inception p.a.
<b>Portfolio return before expenses (TWR)</b>	<b>-0.12%</b>	<b>4.72%</b>	<b>-7.66%</b>	<b>-1.05%</b>	<b>1.38%</b>
S&P/ASX 200 INDUSTRIAL (TR)	-0.48%	5.9%	-11.27%	-0.17%	4.74%
S&P/ASX All Ordinaries Index	0.95%	8.23%	-12.16%	-2.45%	2.66%

Cumulative returns over time



**The Marcus Today Equity Income SMA fell 0.12% in July**, slightly less than the benchmark ASX 200 Industrials TR Index's loss of 0.48%. Over the past 12 months the Income SMA is down 7.66% - outperformance of 3.61% over the benchmark, which is down 11.27% for the period.

In the income SMA we edged back into the market at the end of the month. We currently hold **TLS**, **RIO**, **HVN**, **AGL** and **ORG**.

Through results season we are on the lookout for income opportunities, though we are not focussed on yield alone and will not go recklessly risking capital for a sake of a little income. We are looking to buy relatively low risk stocks with reasonable yields, and we will be adding holdings over the results season as companies' de-risk themselves and clarify dividends. **The cash weighting of the income SMA currently sits at 65%**.

## THE MARKET IN JULY

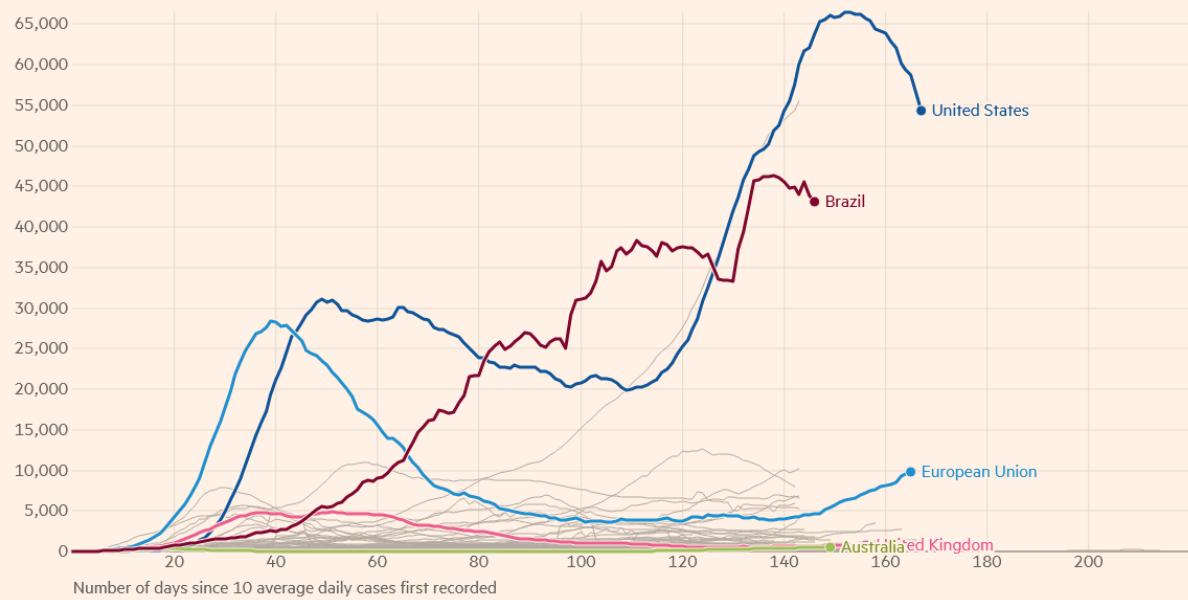
The market is seemingly drawn to 6000. The big question is it support or resistance? Volatility will rise through our local results season and may well provide the catalyst for the next move. At the very least it is sure to offer plenty of opportunities.



As has been the case since February, **the virus remained the main talking point through July**. Cases in the United States peaked and came tumbling down after running out of control for over a month, but it was here in Australia, and in particular Victoria, that started to make headlines as case numbers made drastic jumps and the decision was made to ultimately send the state into “stage 4” lockdown.

## New confirmed cases of Covid-19 in United States, United Kingdom, Australia, European Union and Brazil

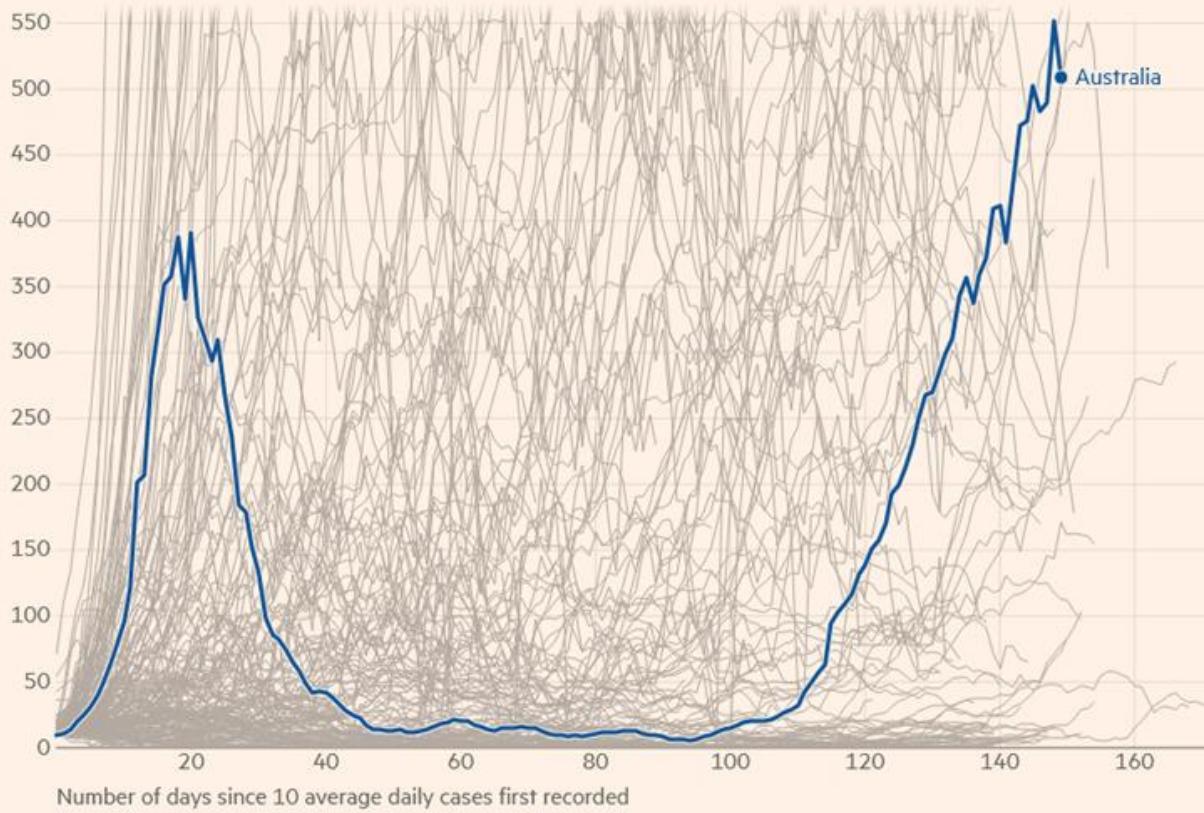
Seven-day rolling average of new cases, by number of days since 10 average daily cases first recorded



Source: Financial Times analysis of data from the European Centre for Disease Prevention and Control, the Covid Tracking Project, the UK Dept of Health & Social Care and the Spanish Ministry of Health.  
Data updated August 7 2020 11.42am BST. Interactive version: [ft.com/covid19](https://ft.com/covid19)

## New confirmed cases of Covid-19 in Australia

Seven-day rolling average of new cases, by number of days since 10 average daily cases first recorded



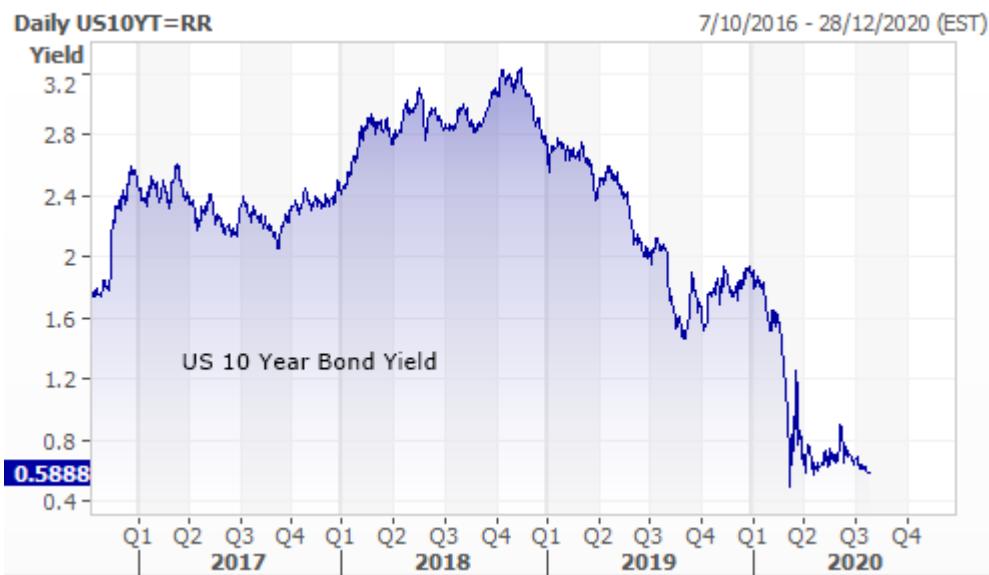
Despite the local troubles the market tended to focus on positives coming from overseas. Declining cases in the US were coupled with a record-breaking results season in which **82.1% of the companies that reported in July beat profit estimates**. This despite the most recent financial period expected to be the slowest profit period since the GFC. Much of the explanation of the profit beat rate comes from the fact that suspended guidance and some extraordinary lowering of estimates in the lead up to reporting made it relatively easy to score a beat. Beyond that, a big boost to the numbers came in the form of smashed forecasts from mega-caps Apple, Amazon and Alphabet.

The forecast beats did nothing to subdue the chatter about a bubble in technology stocks. There is doubtless some blind momentum behind some stocks in the US and Australia that makes them vulnerable to a swift correction, but the results showed there is a material fundamental backdrop behind the big end of the US stock market. **Second-quarter earnings are now seen growing 1.4% from a year ago for the US tech sector, up from an expected 8% decline estimated at the start of July.**

**Other things in July:**

**APRA decided the banks can pay dividends.** The regulator issued capital management guidelines, telling banks and insurers that they do not need to continue to defer capital distributions, provided they moderate payments, and suggest that they need to retain at least half of their earnings when making decisions on capital distributions.

**Bond yields at record lows** suggesting a muted economic outlook.



**The RBA decided to maintain the current policy settings,** including the targets for the cash rate and the yield on 3-year Australian Government bonds of 25 basis points. The outlook remains uncertain and the recovery is expected to be bumpy and will depend upon containment of the coronavirus.

In their **Statement on Monetary Policy** the RBA established the expectation that they will be 10% unemployment by the end of this year and it will still be up at 7% next year.

**The FOMC predictably left interest rates unchanged.** They also made it very clear that future policy depends on the "direction of the virus" and reiterated their vow to "use all tools" to support the economy

**US and China tensions remain elevated.** The White House is said to be preparing for an announcement on the South China Sea and Trump has said that a phase two trade deal is unlikely.

**The US Dollar index has been collapsing in a sharp move to a 2-year low** and losing its 'safe' tag as government finances deteriorate. Not great for Australian companies with US earnings, although to make a difference to earnings the currency would have to go down and stay down, not blip for a moment.



**Gold is at all-time highs** and the sector is flying in response. There is a pretty strong case for gold at the moment with money printing and near-zero yields looking like they'll stay around in the near term.



The miners have continued to rally. Among the best performing sectors over the last few months, the miners are printing money with the iron ore price in triple figures.



- **Furniture Party** - Two stocks that had a run in July were Nick Scali (NCK) and online furniture retailer Temple & Webster (TPW). It seems that whilst people have been sitting around at home, they have been looking around the house and deciding to spruce it up with new furniture. Not sure if it's an online thing or a furniture in general thing. TPW's full-year results saw a 74% jump in revenue over the year with profit up from \$1.5 million to \$8.5 million. Harvey Norman (HVN) is another beneficiary of the trend.

## RESULTS SEASON

**Our local results season is hitting its straps and is set to inject some risk through August.** Results always create risk and then provide certainty but this year there is significant announcement risk, with all announcements whether they are results or not. Results announcements can cause huge price movements in both directions but after the last three months of COVID-19 trading, this results season is going to be quite unique and highly risky, in both directions. The good thing about results is that they de-risk a company for the next 3 to 6 months which means you can more safely rely on the published information and the fundamentals when making a decision. And with income stocks you can wait for the dividend announcement rather than take the bet that they pay one worth chasing.

## MARCUS TODAY NEWSLETTER

For those who are subscribers to the Marcus Today Newsletter you may notice a few tweaks to the STRATEGY section, which will no longer directly comment on specific trading activity in the SMA's. There will be no loss of STRATEGY or stock ideas just because they are not explicitly labelled as "SMA" and you can rest assured that the strategy will remain reflective of our SMA investment discussions. You will still be able to stay up to date on the themes and stock ideas behind our investments, and you of course have 24 hour access to your Praemium investor portal that allows you to see current holdings and changes to the portfolio as soon as they have been actioned on market.

This update provides commentary on the funds as well as a comment on current market thinking. If you have any questions please contact: [sma@marcustoday.com.au](mailto:sma@marcustoday.com.au) and our team will get back to you.

