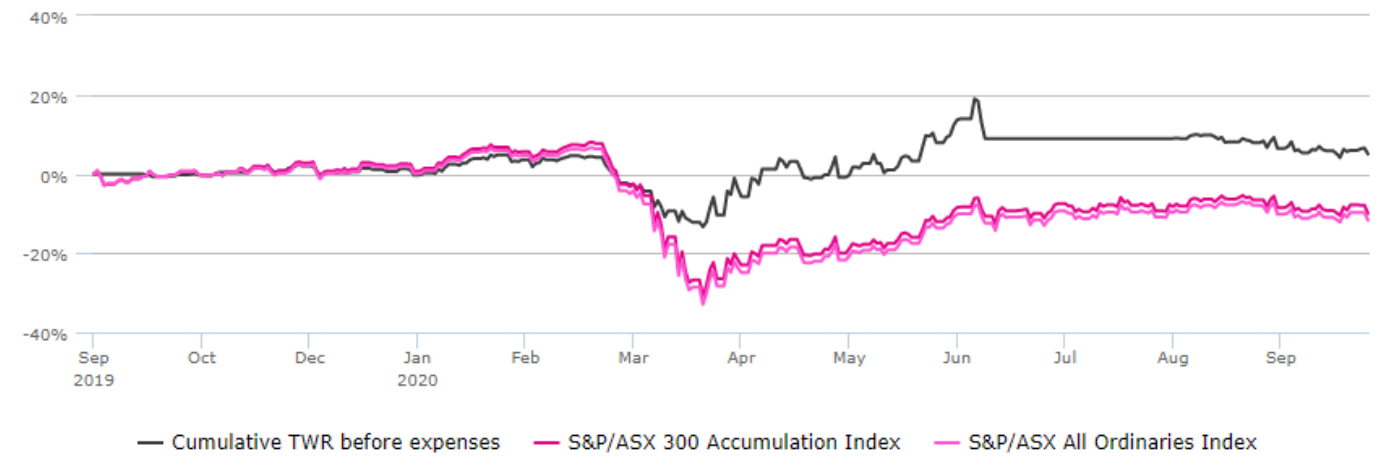
Marcus Today SMA | September 2020 Update

MARCUS TODAY GROWTH SMA (MT0001)

Periods to 30 September 2020	1 mth	3 mths	1 yr	2 yrs p.a.	Since inception p.a.
Portfolio return before expenses (TWR)	**-3.02%**	**-3.58%**	**5.06%**	**1.75%**	**6.15%**
S&P/ASX 300 Accumulation Index	-3.59%	-0.06%	-9.96%	0.67%	6.06%
S&P/ASX All Ordinaries Index	-3.79%	0.13%	-11.64%	-2.53%	2.33%

Cumulative returns over time



The Marcus Today Growth SMA fell 3.02% in September, outperforming the 3.59% fall in the benchmark S&P/ASX 300 Accumulation index by 0.57%. **The Growth SMA has risen 5.06% over the past 12 months – outperforming the 9.96% fall in the benchmark index by 15.02% for the period.**

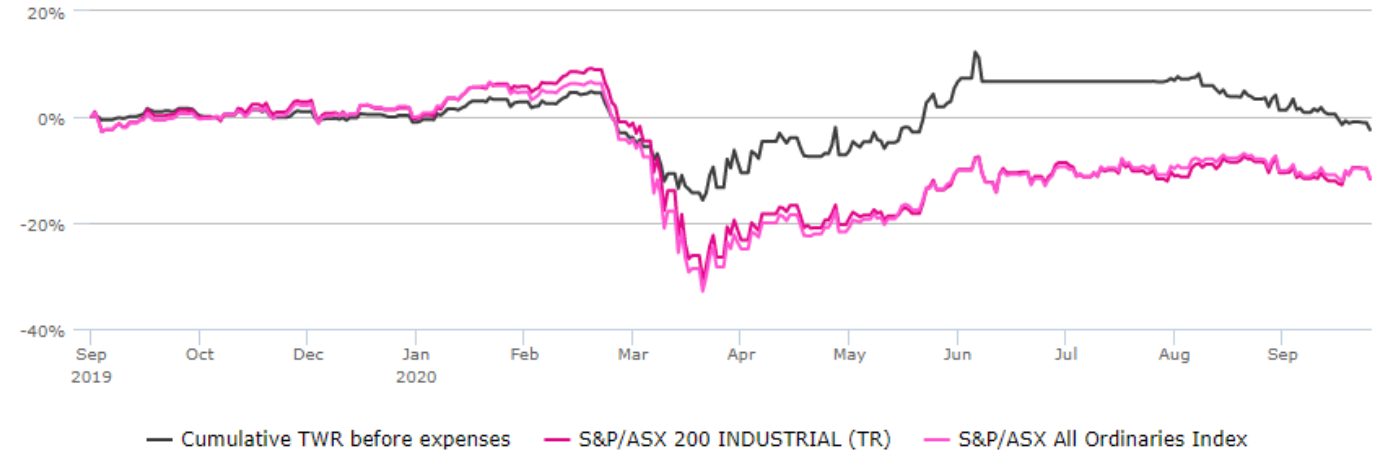
While September was a disappointing month for the market, it proved a significant pivot point for the Marcus Today SMA. Developments through the month made it clear that the global economic recovery was not going to be straightforward and led to us clearing the decks of our holdings that were reliant on that eventuating (such as the banks and our energy holdings). This paved the way for a reset and a renewed focus on growth, technology and companies geared to an Australian reopening and recovery with purchases of the likes of **APX, XRO, REA, WEB, FLT** and **QAN.**

With election certainty improving, vaccine developments and further stimulus injections incoming the chances of another precipitous drop seem much reduced. Our growing concern is that we get left behind by a "risk-on" election rally and as such we are concerned to be fairly fully invested as the election approaches. *As it stands the Growth SMA is around 90% invested.*

MARCUS TODAY EQUITY INCOME SMA (MT0002)

Periods to 30 September 2020	1 mth	3 mths	6 mths	1 yr	Since inception p.a.
Portfolio return before expenses (TWR)	**-5.8%**	**-8.51%**	**7.97%**	**-2.41%**	**4.96%**
S&P/ASX 200 INDUSTRIAL (TR)	-3.23%	-0.47%	13.4%	-11.7%	3.58%
S&P/ASX All Ordinaries Index	-3.79%	0.13%	17.59%	-11.64%	1.52%

Cumulative returns over time



The Marcus Today Equity Income SMA fell 5.8% in August as the market dropped. The benchmark ASX 200 Industrials TR index fell 3.23% for the month. **The Equity Income SMA is down 2.41% over the past 12 months – outperforming the 11.7% fall in the benchmark index by 9.29% for the period.**

September saw a major reshaping of the Equity Income SMA holdings as the global economic recovery optimism began to falter. With the recovery timetable being pushed out we made the decision to sell our "recovery" names and the banks and take the opportunity to "reset" the portfolio holdings. **We are now looking to get more fully invested in the Income Portfolio** with more stocks by number. Not rushing at the moment in the middle of a "Dividend Desert" with the market trending sideways, but we are certainly on the lookout.

DAILY STRATEGY PODCASTS

We are now producing a FREE daily podcast to keep you informed of what we're up to in the SMAs. If you want to hear how your money is being managed on a daily basis then **subscribe on Apple Podcasts HERE**, or **follow us on Spotify HERE**.

SEPTEMBER MARKET COMMENTARY

A soft September saw the ASX 200 fall 4.04%, plagued by uncertainty as COVID-19 lockdowns continued at various levels across the globe and as the US presidential campaign circus continued. The ASX 200 has since rallied 5.95% in the first few days of October on a new 'election' certainty as the polls anticipate a 'Blue Wave' – a Democrat/Biden sweep of the election on November 3.

All the major indices hit a speedbump in September. Big US technology stocks led the fall with the Nasdaq down 5.16% taking the top off a 9.59% rise in August. The index is still up 39.61% in the last 12 months and has significantly outperformed almost all other markets globally. For the month, the S&P 500 fell 3.92% and the Dow Jones fell 2.28%.

Australia underperformed once again led down by the banks (down 5.03%), resources (down 6.12%) and energy (down 11.56%) as the oil price fell 6.01%.

Surrounded by a seemingly endless supply of news headlines, conflicting statements, tweets and insults, **the main election event in September was the Presidential debate**. With over 73 million people tuning in, the debate was dysfunctional and did little to settle the political uncertainty. With perhaps the main takeaway being Trumps consistent interrupting, name calling and even arguing with the mediator. In the following days, the odds have moved hard against Trump and in favour of a Biden win and in early October, as the Biden polls widened in Biden's favour, the US markets have bottomed as a risk-on market rally starts to factor in a 'Blue Wave' (Biden/Democrat) election sweep. Certainty about the outcome is good for the markets with the newswires beginning to list a host of market benefits that a Blue Wave win would bring including:

INDICES	Sep	Aug	2020 Calendar Year	This Financial Year	Rolling Year
ALL ORDS INDEX	-3.79%	+3.10%	-11.66%	-10.30%	-11.64%
ASX 200	-4.04%	+2.24%	-12.99%	-12.13%	-13.04%
ALL ORDS inc	-3.43%	+3.71%	-9.43%	-6.18%	-8.76%
MSCI WORLD INDEX	-3.59%	+6.53%	+0.37%	+8.67%	+33.04%
DOW JONES	-2.28%	+7.57%	-2.65%	+4.44%	+3.21%
S&P 500	-3.92%	+7.01%	+4.09%	+14.32%	+12.98%
NASDAQ	-5.16%	+9.59%	+24.46%	+39.48%	+39.61%
FTSE	-1.63%	+1.12%	-22.23%	-21.00%	-20.82%
GERMANY	-1.43%	+5.13%	-3.69%	+2.92%	+2.68%
FRANCE	-1.57%	+7.69%	-19.65%	-13.28%	-15.40%
ITALY	-3.63%	+1.34%	-29.66%	-26.98%	-27.35%
SPAIN	-3.57%	+1.09%	-30.44%	-28.59%	-28.37%
CHINA	-5.23%	+2.59%	+5.51%	+8.03%	+10.77%
HONG KONG	-6.82%	+2.37%	-16.78%	-17.81%	-10.09%
JAPAN	+0.45%	+8.16%	-5.57%	+4.79%	+2.37%
INDIA	-1.45%	+2.72%	-7.72%	-3.37%	-1.55%
SECTORS					
INDUSTRIALS	-3.49%	+2.87%	-13.22%	-11.87%	-14.25%
RESOURCES	-6.12%	-0.11%	-12.10%	-13.16%	-8.02%
PROPERTY TRUSTS	-1.57%	+7.69%	-17.72%	-19.60%	-19.85%
BANKS INDEX	-5.03%	-0.59%	-26.44%	-33.13%	-34.56%
ENERGY SECTOR	-11.56%	+2.7%	+1.32%	-1.78%	+7.90%
COMMODITIES					
AUSSIE DOLLAR	-2.90%	+3.26%	+1.99%	+2.01%	+6.10%
GOLD	-4.28%	-0.25%	+24.29%	+33.80%	+28.09%
OIL	-6.01%	+6.3%	-34.49%	-31.19%	-25.96%
IRON ORE	+1.2%	+12.5%	+35.45%	+13.56%	+33.44%
COAL	+4.6%	-3.5%	+7.00%	-6.65%	-8.84%
COPPER	+0.1%	+4.0%	+7.28%	+11.33%	+16.54%
NICKEL	-5.5%	+11.5%	+1.41%	+14.40%	-14.86%
ZINC	-1.9%	+5.0%	-3.39%	-1.94%	+2.53%
ALUMINIUM	-4.5%	+8.5%	+4.21%	-3.69%	+1.05%

The end of an embarrassing chapter for US politics in which presidential powers have been used to further the personal, narcissistic, shallow, egocentric goals of a president obsessed with personal approval.

A return to constructive co-operation between the White House and Congress which brings the prospect of a new cohesion on Capitol Hill which will include the negotiation of an immediate and possibly larger stimulus package in the US.

A return to 'policy management as usual' with the Federal Reserve leading policy once again without open presidential intimidation and criticism.

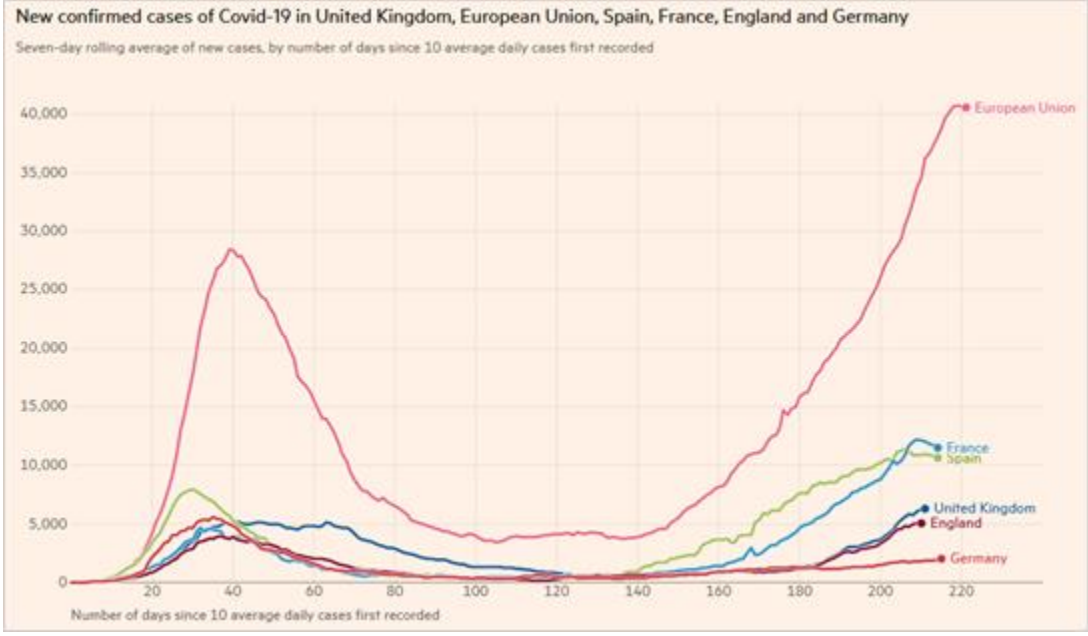
A return to constructive foreign policy and an end to four years of trade talk risk that persistently threatened global economic growth and a more co-operative and positive economic collaboration with China and Mexico, the of two the US's biggest trading partners.

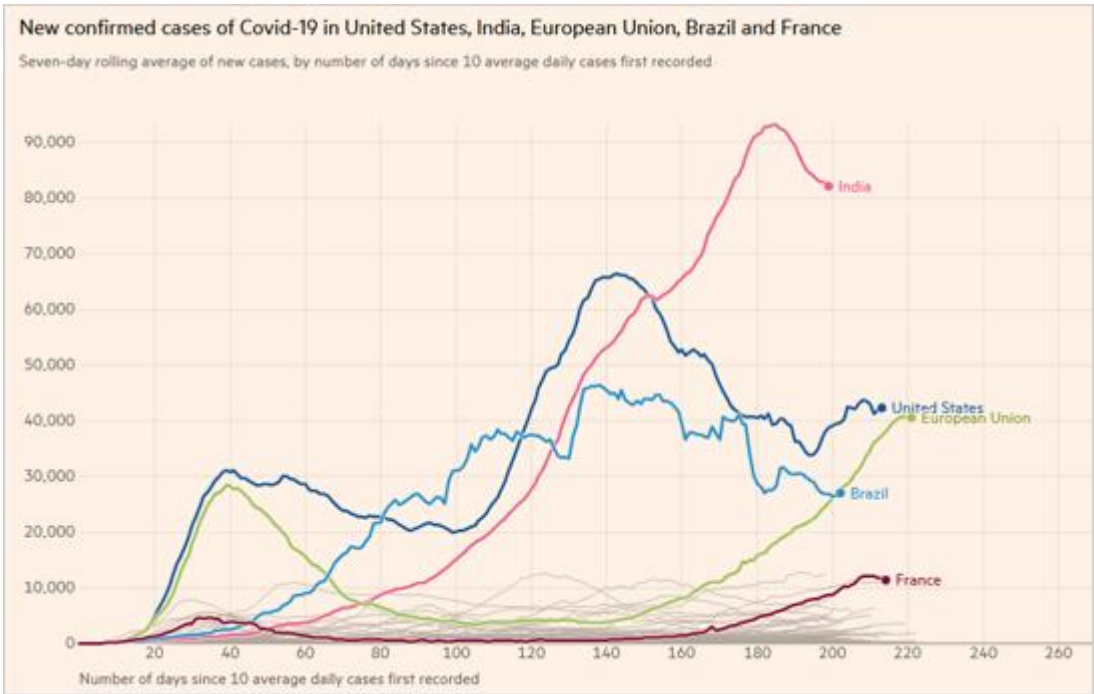
Net result – the market is beginning to anticipate GDP upgrades for the US, China and the world.

Post the Presidential debate the market saw another bout of volatility on the announcement that **President Trump had contracted COVID-19.** A media circus followed, and our local market fell 1.4% on Friday October 2nd as the news broke, before bouncing back 2.6% on the Monday as it appeared as Trump made a Lazarus like recovery. As it stands Trump is back in the Oval Office significantly reducing the risk of a delayed, confused, election. No doubt there is already a production (or ten) in the works to document the latest dramas. We have seen a number of pieces of pre-election anti-Trump media including the well-timed (for the election) "The Comey Rule" and "#Trump: How Social Media Changed The Presidency" – essential viewing. The timing suggests that there is some well-planned campaign management going on under the surface somewhere.

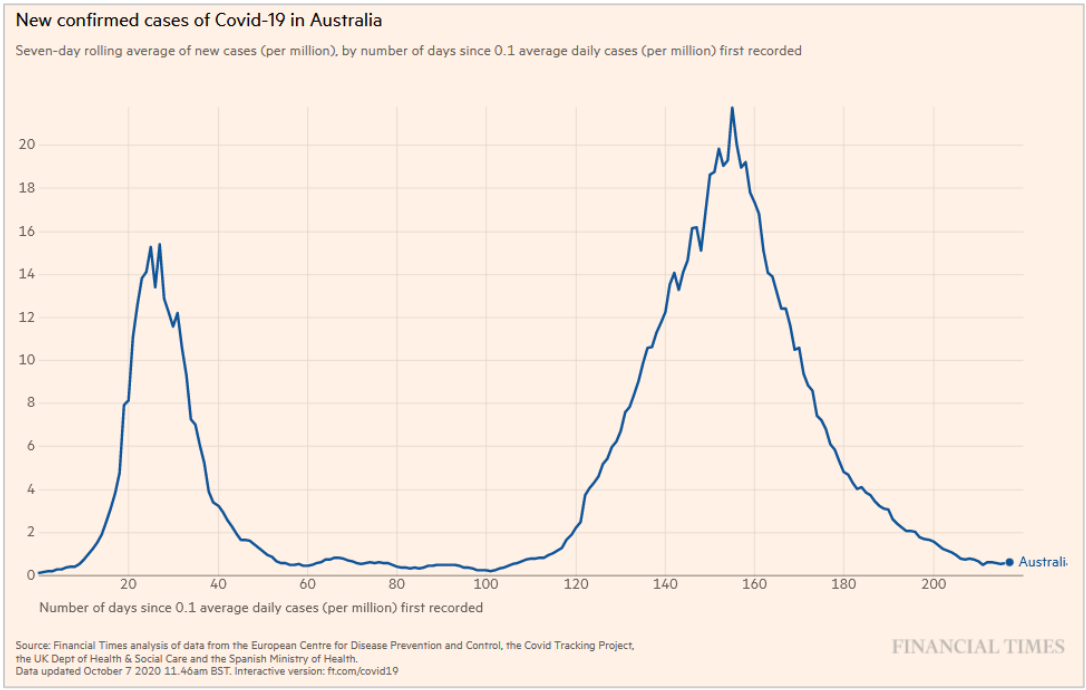
Trump's first notable action since his hospital stint has been to call an abrupt halt to the ongoing coronavirus stimulus package negotiations until after the election. The Democrats were looking to introduce a $2.4tr package, while the White House was offering $1.6tr. The move puts the US stimulus cheques and unemployment benefits at risk and caused another sharp but brief sell-off in the US markets, with stimulus being key to the market's prospects. The good news is that the election is on a timeframe, so this uncertainty is all on a timeframe too, and it will expire either on, or soon after (let's hope), November 3.

Outside of US politics Covid-19 remains the largest risk to markets with a 'Winter Wave' in the northern hemisphere having the potential to damage the global growth trajectory although a vaccine would head it off and there are already some signs of case numbers peaking in Europe, France and Spain. The UK case numbers continue to rise unhindered in the face of the UK's sorry excuse for restrictions - no gatherings of more than six people and pubs closing at 10 pm are not going to turn the a pandemic. In Australia (and NZ) we are truly "on our own" in the management of the coronavirus.





US case numbers have had a resurgence but are leveling out again with Brazil and India seemingly over the worst. All in all, not too bad, getting better rather than worse globally. Meanwhile the Australian success in containing the second wave of the virus suggests **the Australian economic recovery is a better bet than a global economic recovery**.



Without a vaccine international borders could remain closed for some time yet, but free reign on interstate travel is inching closer by the day. A travel bubble between NZ, NSW and the NT is set to open on October 16th, with SA set to join in the action shortly after. Travel stocks **FLT** (+4.1%), **WEB** (+4.6%), **QAN** (+2.8%) and **SYD** (+4.4%) were among the best performers through September in anticipation of long-term recovery from oversold levels. The Qantas board could one day look back at the pandemic as the episode that destroyed the competition with significant long-term benefits for the company.

Helping the Australian recovery prospects in early October was the **$100bn budget put forward by the Government**. It didn't move the market on the day but the positive implications of stimulus has

washed quietly through the market since. The initial reaction was that whilst predictable, it did what it had to do - support business and support the people and for the moment "Damn the Debt".

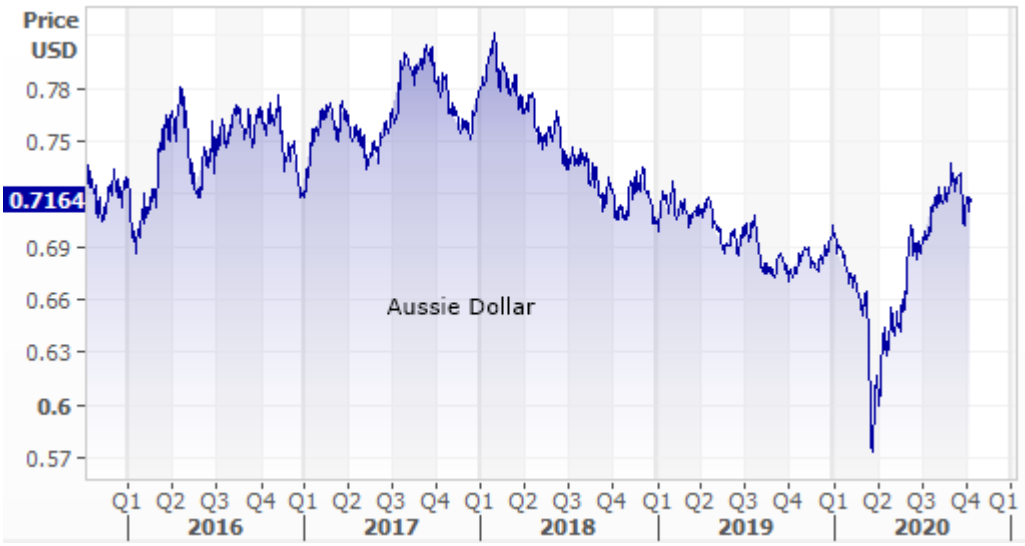
The more politically charged post-budget commentary highlighted the negatives which were easy to find, based around the level of debt the government has run up in this process. The more forgiving commentary was that the government doing what they have to do.

The Government have effectively now "fired all weapons". The RBA have one weapon left; a rate cut from 0.25% to 0.1%. Anyone who had a mortgage in the 1990s and paid 17%pa is excused for having a good laugh at the copious column inches devoted to the serious speculation about the importance of a 0.15% rate cut. It is irrelevant, sentimental at best, although on one day in September the ASX 200 rallied 140 points in a day, led by the banks, on a Westpac prediction that the RBA would indeed cut the cash rate.

The last piece of the puzzle for the Australian recovery is now a vaccine. **CSL** has signed an agreement with the Australian Government to produce 50m doses of a potential vaccine candidate although the prospect of an effective vaccine being approved by year end is slipping by the day. **The FDA has said there will be no emergency approval of a vaccine pre-election** insisting on 2 months of post-inoculation study required before approval. Best case may be and end of year approval and distribution in H1 2021 at the earliest. The risk (if anything) is that this assumed timetable gets delayed, although anything that gets death rates down to acceptable levels, be that a vaccine or treatments or healthcare preparedness, should do the trick.

Also, in September

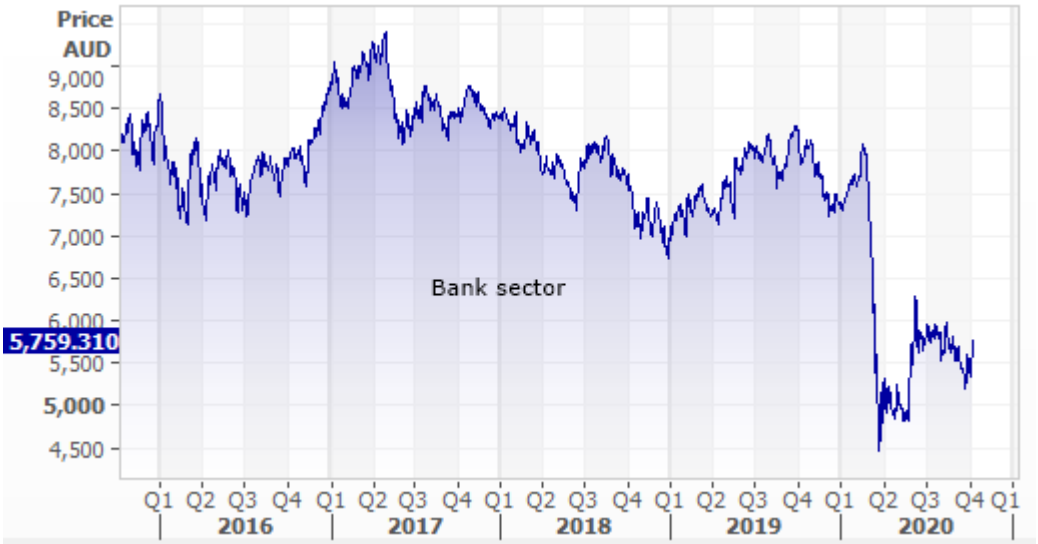
- 'Accommodative' is the word of the year for central banks. **The Fed** announced a significant policy change this month – they have talked about allowing inflation back into the system before considering any policy tightening. They have also called on the political system for fiscal support which was seen as a declaration of 'peak monetary policy' and an admission that they are out of ammo.
- **The BoE** is talking about negative rates being a real possibility.
- **The AUD pulled back a little**. It hit a high of 73.75c and a low of 70.13c as the USD rallied. It has since picked up a little to sit at 71.44c.



- **The US 10 yr bond yields started to rise** moving from 0.645% to 0.7668%, taking it to the highest bond yield since June. Bond yields are a barometer of economic optimism. Higher yields at this low-point in the economic cycle are a positive lead indicator.

- **US economic data continued to improve**, albeit slowly, through September. The trend is clearly improving from the March lows with the speed of the recovery getting a boost from the Blue Wave sweep of the pre-election polls. Trump is still talking up a 'V-shaped' recovery. Biden is calling is 'K-shaped' (different parts of the economy moving at different speeds).
- **US/China relations couldn't be much worse but will significantly improve with a Biden win, leading to GDP upgrades.** Australia's loyalty to the US has injected volatility and uncertainty into the relationship with China and there is speculation of a 'China stock' rally should the Democrats win.
- **Technology stocks were on the nose in the US** in September with the FANG+ ETF down 4.3% for the month. Nothing major in the grand scheme of things, with the group of tech names up 42.3% in the past 12 months.
- **Apple is up 100% in last year** despite sales falling 2%. Its PE has moved from 15x to 33x and the company is now valued at US$2tr.

- **European markets** fell through the month as the threat of the 'Winter Wave' increased.
- **The banks** received a shot in the arm when it was announced that the responsible lending laws would be relaxed. The news saw a one day jump of 7.4% by **WBC**, 6.9% by **NAB**, 6.3% by **ANZ** and 3.0% by **CBA**.



- **Real estate agents will have been popping champagne** with the relaxation of responsible lending laws and the Victorian property market coming back online. **REA** fell 3.7% through September but has rallied 7.2% in the first week of October on the back of the lending relaxation.
- The **BNPL sector** had a September correction followed by an October resurrection. BNPL is clearly getting more competitive. Citigroup research said BNPL is becoming crowded space (particularly in US) as they put out a SELL recommendation on **Z1P**.
- **The gold price fell 4.3% in September**. In the corporate space **Northern Star** (NST) and **Saracen Minerals** (SAR) announced that they will merge to form a new $16bn gold miner, one of the world's top ten – both stocks rallied.
- The **iron ore price peaked and began to fall** through the month. The big miners all fell in response, with **BHP** down 6.1%, **RIO** down 3.8% and **FMG** falling 6.4%. There are signs that they are bottoming in October.

- **Energy stocks remained under pressure** as the oil price fell 6.01% through the month, with global growth prospects remaining muted. Again, a likely beneficiary of a new economic optimism that a clear election result might bring.
- **The VIX volatility** (Fear) **index moved higher in September** reflecting political and economic uncertainty, particularly in the US, and the continued threat of rising cases in Europe and the US.

- **US Results season is approaching.** Analysts expect a 21% fall in earning over the coming weeks.

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 and our team will get back to you.

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Fund Manager

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