



MOVING FORWARD... THE OPPORTUNITY SET

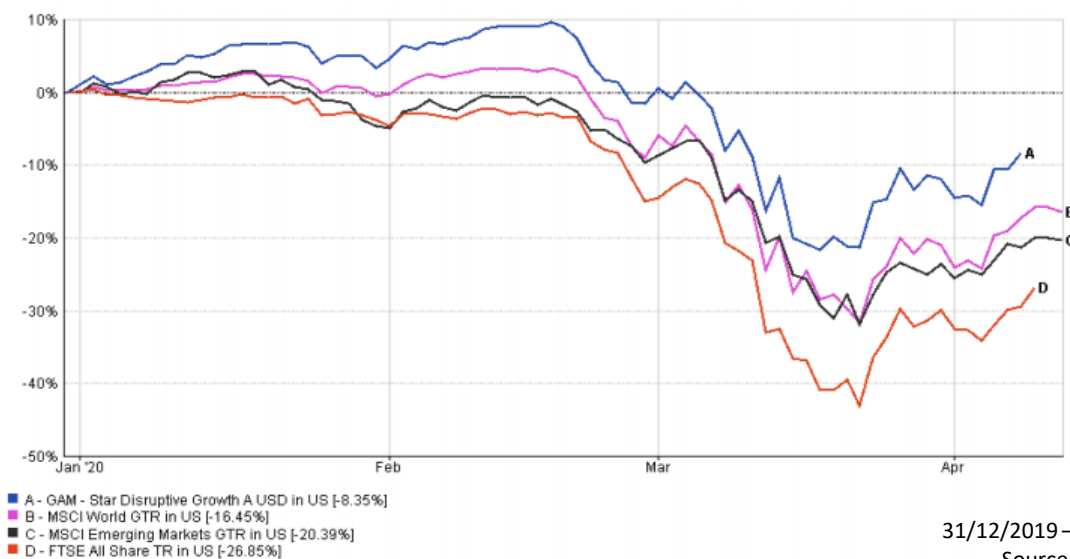
The recent weeks have been extremely challenging for obvious reasons, however those with patience and a (real) long-term outlook will likely prosper from the eventual renewal of the world’s economic output and asset price re-rating over the years to come.

We have already seen a healthy bounce in global equities (+10% last week), their strongest week since 2008, which translated into declining volatility, although the VIX index of implied volatility of S&P 500 options still remains at significantly elevated levels (it was at 14 when the market peaked on 19 Feb 2020 compared with 42 today).

Though undoubtedly encouraging, there is a distinct possibility this positive shift could represent one of a number of false dawns over the coming weeks. At present, there is very little clarity on the timing of a return to normality from this horrendous pandemic and this uncertainty will likely lead to continued volatility in markets.

During times of market stress, it is important to evaluate and analyse what the opportunity set looks like going forward. One of the stand-out performing funds within our offshore model portfolios has been our allocation to the GAM Star Disruptive Technologies fund, which is managed by Mark Hawtin (represented by the blue line below).

Performance of GAM Star Disruptive Technologies



Last week we took the decision to increase the allocation to this theme to within our models – this not only provides additional exposure to risk assets within client portfolios but more importantly adds exposure to a sector and theme which, in our view, will be among (or perhaps the) biggest beneficiaries of the recent lockdown and resulting effects on how businesses operate in future.

According to a recent presentation for the fund, three of the main factors that will continue to be positive on technology and drive its investment strategy are:

1. **Ubiquity:** The last decade has seen technology move from being a vertical dominated by software and hardware vendors, to an economic horizontal, where the way technology is used is far more significant than the technology itself.
2. **Disruption:** The network effect, coupled with new and fast-growing technologies such as artificial intelligence, the internet of things, big data and blockchain, will drive the disruption of technology across sectors, resulting in a wealth of opportunities for experienced investors.
3. **A deepening opportunity set:** Established companies are developing disruptive, competitive new models across every sector in consumer and enterprise and increasing their own growth opportunities by utilising new technologies.

Mark Hawtin recently commented on this point “Microsoft has reported a 775% increase in cloud instances in countries operating an isolation policy. The chief technology officer of Telefonica has said the level of cloud business growth expected over the full 2020 year had in fact occurred within days. AT&T and Verizon, the biggest telecom providers in the US, have seen respective jumps of 27% and 22% in traffic levels. The most obvious beneficiaries, video and voice conferencing, have also exploded – Webex traffic is up 240%, Facebook and WhatsApp messaging is up 50% and video calls are up 200%, to name a few examples. What we find fascinating, however, is that in Asia, where lockdown measures are being relaxed, the levels of remote technology usage remain high. We believe this pandemic may accelerate the structural shift to the cloud, to remote working and to a change in living patterns that could be permanent.” Source: GAM Investments

The point I am trying to make here is that, all companies must innovate with technology at their core. In our view, the pandemic has strengthened this requirement and we believe it may lead to a speeding up of the adoption to the use of new disruptive technologies. No one knows exactly where the market will bottom out, or whether it has already done so, nonetheless the prospects this sell-off may provide must not be ignored.



Simon Sharrott

Joint Managing Director (Guernsey) & Portfolio Manager

www.mitonoptimal.com