

Think short-term for lockdown but not for investing

The UK lockdown means none of us can plan ahead in our social lives, but we still need to focus on the long term for our investments.

The UK's second lockdown means everyone's winter plans have been torn up and thrown away. Even seemingly modest weekend activities – going to a museum, meeting a friend for lunch – are now off the table.

As many of us learnt during the first lockdown, the trick is to focus on what is possible in the short term. A walk round the park today is achievable; a dinner party next month may not be. Recent news on a vaccine is very encouraging but there's a long way to go until it becomes widely available. Until then, a lot of our plans will remain on hold.



But when it comes to investing, it's important to focus on the future and ensure that our decision-making is not overly swayed by near-term or temporary events.

Lockdown and Brexit pose near-term challenges

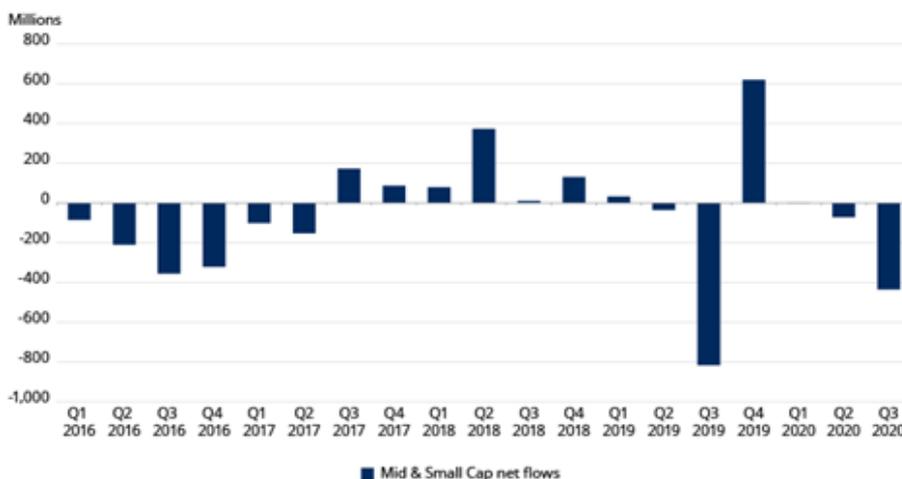
The second lockdown represents a huge challenge for UK companies, particularly those non-essential retailers and hospitality businesses who had to close once more. Then there are other industries such as events and travel that had barely restarted after the original lockdown.

There is also the ongoing uncertainty of Brexit, with a trade deal between the UK and EU still unresolved at the time of writing.

And it's fair to say that the performance of UK equities has reflected these challenges, with the FTSE All-Share down 23% and the FTSE 250 down 20% in the ten months to 31 October, compared to a 1.5% gain for the MSCI World index.

This is reflected in flows too, as the chart below shows. It shows flows into small and mid-cap UK equity funds, which are more representative of the domestic UK economy than the larger companies of the FTSE 100. As we can see, the apparent certainty generated by last December's general election result saw flows rise steeply, only to fall this year.

UK Equities – quarterly flows (GBP)



Source: Morningstar Direct OE ex FoF ex Feeder, Schroders, as at 30 September 2020. 518229

However, the recent results from various vaccine trials are cause for renewed optimism and could be a catalyst for a reawakening of investor interest in the UK.

Companies looking to grow need equity not debt

Even prior to good news on the vaccine front, we felt there was an opportunity in the UK for investors willing to look beyond the pandemic. In particular, the small and midcap segment of the UK equity market offers some interesting opportunities.

The UK is home to many companies currently experiencing high growth and benefiting from trends that have been sped up by the pandemic: the rise of e-commerce and the use of digital health tools are examples that look to be here to stay.

On the other hand, there are also high-quality UK companies that have come under pressure, but they will be in a position to grow rapidly once we are all able to travel and socialise freely again.

And there are others with exciting technology or products that can address the myriad challenges - such as climate change - that will still be with us long after the pandemic.

Debt is readily available with interest rates at rock bottom levels and many companies have taken advantage of it. But there needs to be an alternative for companies so that they don't saddle themselves with too much extra debt at this time of high uncertainty.

Sustainable investing requires a long-term view

The 17 SDGs reflect the biggest challenges facing the world today, including climate change and poverty. They are not going to be solved by a short-term approach. Equity investors can support companies in incorporating the SDGs into their planning and ensure they are on a secure path to delivering growth for all their stakeholders, from employees to investors.

None of this can happen if we focus solely on the events happening right now. Thinking short term may be sensible to help weather the current lockdown as individuals. But if we want to build responsible businesses offering sustainable future growth, then we need to look ahead.

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