Quarterly Review

April 2021

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	Q1 2021	Return	Level
Equity	MSCI AW Index	4.57%	673
	S&P 500 Index	6.17%	3973
	MSCI EM Index	2.29%	1316
	MSCI CH Index	-0.16%	108
	FTSE 100 Index	4.97%	6714
Debt	BBARC GA Index	-4.46%	534
	US G2Y Index*	-0.11%	0.16%
	US G10Y Index*	-5.12%	1.74%
	US G30Y Index*	-10.26%	2.41%
Infrastructure	S&P GI Index	3.00%	2603

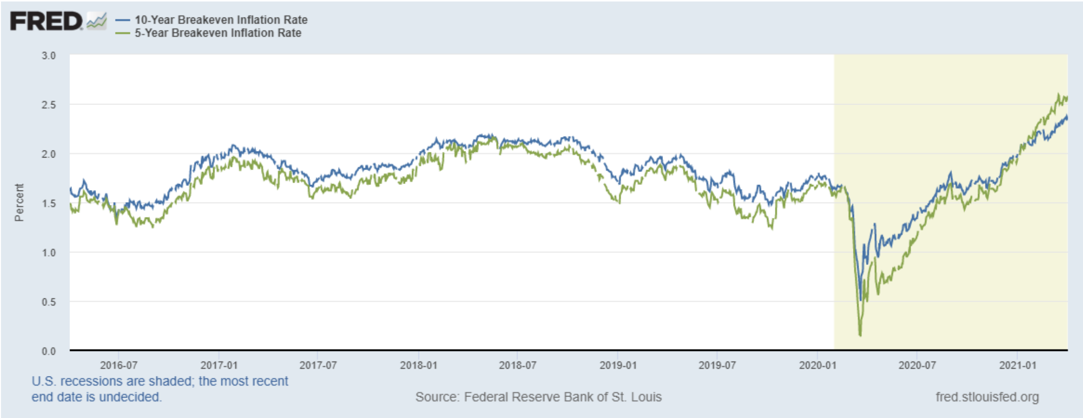
(Source: Morningstar)

Equities pushed their way higher during the first quarter 2021 despite periods of volatility and style rotation. Market movements and sentiment were somewhat "stop-go" as conflicting short-term signals fed into the daily pricing mechanism. A strong rotation from growth to value style was a feature, and overall sentiment mused the potential for an inflationary comeback after years in the wilderness – Treasury yields backed-up significantly causing some disquiet in equity markets. The benchmark 10-year Treasury yield rose a significant 83bps, the biggest move since late 2016. Understandably, equities sold off from late February to late March with the S&P 500 index registering two mini corrections and finally closing the quarter with an all-time-high. Quite a roller coaster ride!

This volatility occurred during a quarter that saw $1.9 trillion of fiscal stimulus injected into the economy with an additional $2 trillion earmarked for the President Biden's "Green New Deal". The deal is to bring massive government spending to environment friendly infrastructure renewal and modernisation.

We should also be cognisant of what economic recovery could mean for monetary policy and a possible fiscal policy change further downstream. The Federal Reserve's inflation averaging methodology may help delay tightening, but if inflation runs hotter than expected, then the Fed' will have little choice but to tighten policy such that yields move into in positive territory. We are seasoned investors – 1994 is not beyond our experience and we remain vigilant to this threat. Any belief, however, that the Federal Reserve is running behind the curve would play further into speculator's hands. It is not unreasonable to expect 10-year Treasury yields to push into the 2%-3% range over the next 3-6 months, placing some relative valuation check and potential strain on a sustained advance in equities from here.

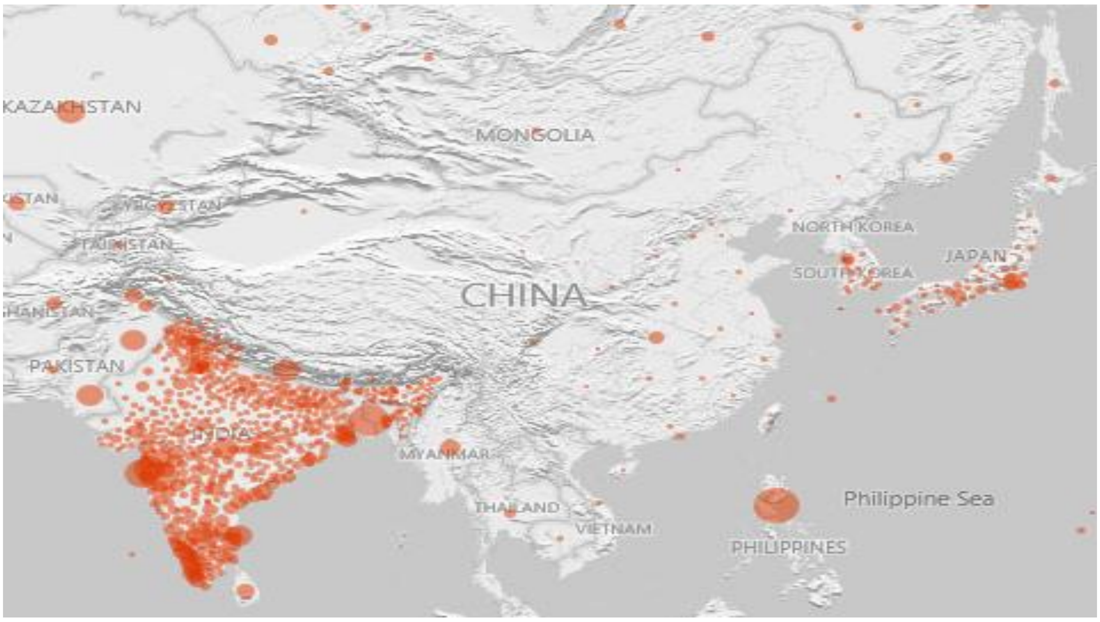
The following chart shows the breakeven inflation expectations:



Coronavirus vaccine efficacy appears robust with UK and USA posting impressive vaccination numbers although Europe is lagging. This is clearly a huge positive and markets have already factored in economic reopening optimism. This is reflected in the German DAX, the US Dow Jones Industrial Average and S&P 500 all closing the quarter at an all-time-high.

Whilst a strong rebound in both the US economy and earnings are undoubtedly helpful, we cannot ignore the fact that several valuation metrics such as the forward price to earnings ratio (23x) and the CAPE (Cyclically Adjusted Price Earnings) of 36x are stretched. On the technical front, the strong run for equities has pushed our proprietary Alpha Beta (AB) Momentum Indicator towards our cautionary level of 100. So, whilst we see potential for a leg-up in the S&P 500 to the 4150-4300 in the near term, we maintain a close eye on the risk/reward balance from here.

Looking east, China's recovery from Covid-19 has been remarkable with GDP already higher than pre-pandemic levels and the virus all but eradicated. The map shows Covid-19 incidence across much of Asia.



Source: Covid-19 Tracker

At a geopolitical level we maintain a close watch on tensions in the South China Sea between Taiwan and China, which brings the potential for an ongoing cold war in the region.

At asset class and portfolio level, equities performed reasonably well, weathering the impact of higher bond yields and with value-oriented stocks taking over the leadership from "big tech". A slight reduction in US equities in favour of higher growth markets such as China, Emerging Markets, UK, and Europe have paid off for portfolios so far, although we await a lift-off from well-priced and out of favour UK stocks. We remain overweight equities which has proven to be the appropriate strategy. We now stand at a point where the risk/reward ratios appear stretched and without a positive surprise markets could drift into a consolidation. Hence, we remain "cautiously risk-on."

We are pleased to have exited longer-dated US treasuries which have suffered heavy losses during the period. Our gold allocation, albeit small, has been a casualty of higher bond yields, falling back from previous highs – we do expect a rebound in coming months. Our global property [REITs] allocation has performed well as it is focused on regions and sectors of likely success related to a recovering economy.

Portfolios are well balanced at the point of writing with both our Core range and Core Plus range posting decent returns. Ethical and Socially Responsible portfolios are set to benefit from the "economic greening" that undoubtedly lies ahead. Sustainable energy stocks and UK value-oriented funds have performed well ahead of benchmarks during the first quarter 2021.

All portfolios remain firmly within their allocated risk framework with no breaches. All operational and dealing costs are kept at very low levels reducing performance drag for investors.

We would like to thank you for your ongoing support, and please do get in touch with any queries or questions – as ever, always good to hear from you.

Our Portfolio Returns:

AB Core Performance %	Year to Date	Quarter to Date	Month to Date
Alpha Beta AB1 Core	−0.12	−0.12	1.27
Alpha Beta AB2 Core	0.45	0.45	1.74
Alpha Beta AB3 Core	1.17	1.17	2.25
Alpha Beta AB4 Core	2.22	2.22	2.88
Alpha Beta AB5 Core	2.10	2.10	2.83
Alpha Beta AB6 Core	2.28	2.28	2.71

AB Core Plus Performance %			
AB Core Plus Cautious	0.08	0.08	1.46
AB Core Plus Cautious Balanced	0.68	0.68	1.81
AB Core Plus Balanced	1.52	1.52	2.13
AB Core Plus Balanced Growth	2.34	2.34	2.66
AB Core Plus Growth	1.96	1.96	2.08
AB Core Plus Adventurous	2.04	2.04	1.87

SRI & Ethical Portfolios Performance %			
AB SRI Defensive	−0.76	−0.76	0.96
AB SRI Balanced Income	1.75	1.75	2.56
AB SRI Balanced Growth	1.94	1.94	2.69
AB SRI Adventurous	2.46	2.46	2.23
AB Ethical Balanced Income	1.67	1.67	2.41
AB Ethical Balanced Growth	3.02	3.02	3.37

(Source: ABP and Morningstar, Date: 31/03/2021)

Written by the Alpha Beta Investment Team.

Contact: **Andrew Thompson**
Tel: 07968 934127
Email: at@alphabetapartners.co.uk

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Alpha Beta Partners Ltd.
Cannon Place, 78 Cannon Street, London EC4N 6HL
info@alphabetapartners.co.uk I 020 8059 0250

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www.alphabetapartners.co.uk