

Alpha Beta

PARTNERS



Investment Update

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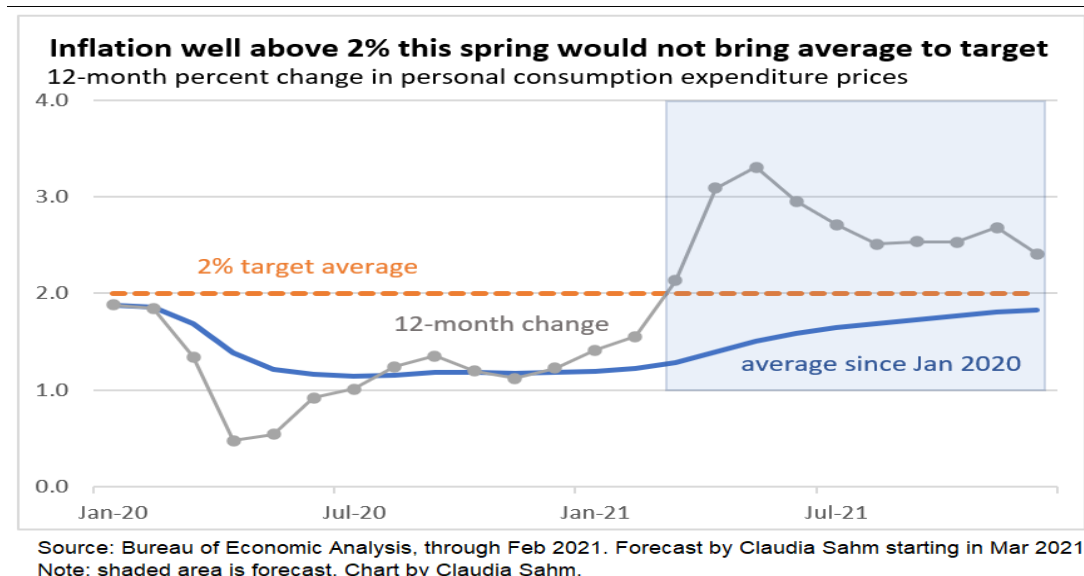
President Biden's speech to Congress to mark his first 100 days in office was momentous indeed. The quiet man of US politics struck out with a defining set of policies and spending plans that sees the most significant return of big government to the United States since Lyndon Johnson's Great Society of the mid-1960s.

Joe Biden's wealth redistribution plans are perhaps the biggest in US history with income and capital gains taxes rising for the wealthiest whilst corporate taxation is set to rise too. The minimum wage jumps to \$15 per hour, health, childcare, and education financial support from central government is to rise very significantly, overshadowing the Beveridge era in post-war Britain. Add to this infrastructure renewal on a massive scale and a pledge to "build back better" linked to a sustainable and green agenda and the sum being demanded from Congress exceeds \$4 trillion! On a global scale this strategy marks President Biden as the world champion of government spending. The Democrat control of Congress is wafer thin and plans will be prioritised ahead of the mid-term elections which may see challenges to rapid debt expansion.

As India suffers horrific casualties from Covid-19 the economic developed nations led by Great Britain and Israel are benefitting from a successful mass vaccination programme which is apparently reducing infections and the severity of the disease within populations. Reopening plans are being rolled-out and supply bottlenecks are appearing. The cost of shipping freight on key global routes has risen significantly whilst the supply of microprocessors has stalled, creating shortages sufficient to temporarily halt some production lines. The price of essential commodities such as copper, integral to modern infrastructure and food staples such as corn have all inflated notably in recent times.

Bond yields have backed-up signifying downstream inflationary pressure and stoking volatility in equity markets. Meantime, central banks continue with liquidity injections to economies now showing some robust signs of recovery, equities at all-time highs and with Purchasing Managers Indices pointing encouragingly to growth whilst unemployment numbers are stable and improving. The important first quarter earnings season in the US has so far shown robust data from the valuation stretched large technology names with Facebook and Apple offering strong growth.

Fundamentally and technically equities are priced to perfection – meaning any bad news or sentiment shift is likely to provoke volatility and even a correction. 2021 to-date has seen a resurgence in the fortunes of value investing, with hitherto unloved companies witnessing share price expansion, although growth companies and technology remain robust. We are vigilant and mindful of building inflationary pressure and although the calculation methodology for US inflation has been altered to allow economies to "run hot" above the medium-term target, an ill-timed pre-emptive rate hike from the Federal Reserve could wreck the party for all. Likewise, an ill judged [but undoubtedly well intentioned] tax raid on the "mega-tech" companies could trigger a sentiment shift sufficient to correct equity markets in quick order. Jerome Powell at the Federal Reserve maintains that inflationary pressure due to supply bottlenecks is both understandable and transitory. Meantime prices continue to rise globally. Claudia Sahm an outspoken American economist, formerly director of macroeconomic policy and section chief at the Board of Governors of the Federal Reserve points to inflation coming back under control later this year and into 2022. Her chart below highlights the possible trajectory for inflationary pressure.



China has staged a remarkable recovery from the pandemic although other emerging markets have so far fared less well. We are encouraged to see UK equities performing more strongly and whilst there is no silver bullet for the domestic economy a robust recovery from Coronavirus appears underway. Japanese growth has also surprised on the upside and notably its CPI inflationary figures have fallen back. In Germany, the picture is more mixed, and it appears Chancellor Merkel's CDU Party could be replaced by the Green Party which could bring forth some significant changes – we watch with some interest. Our forecast of a corrugated recovery appears to be playing out.

At portfolio level we are pleased with progress so far this year. Asset allocation changes to avoid bond yield damage have proven correct and raising UK equity weightings likewise. We expect emerging markets to pick up as economic recovery broadens and deepens. In Core Plus portfolios our thematic allocation favours Future World and Recovery which continue to perform well. Risk is well anchored, although we remain vigilant considering potential head winds set out earlier. The medium to longer term points to strong economic recovery and growth prospects for investors.

If you have any questions or feedback, please get in touch – we would be pleased to hear from you.

Featured Fund

Janus Henderson Global Technology Leaders

This month we are pleased to feature an active fund selected for Core Plus portfolios as a satellite holding. The Janus Henderson Global Technology Leaders Fund sits in our Future World thematic allocation. Global equities performed well in April 2021 with S&P 500 reaching all-time high and European & UK Markets also performing well except for Japanese Markets which posted negative return. All our satellite positions have posted positive returns with Healthcare, Infrastructure and Technology being the leaders.

However, in terms of risk-adjusted returns and relative performance against their benchmarks Janus Henderson Global Technology Leaders Fund stands out as the best Fund in April 2021. Whilst posting a return of 8.7% (1.8% higher than the MSCI World Information Technology Index benchmark), its risk adjusted return (Sharpe Ratio) of 5.49% is also outstanding as compared to the same MSCI World Information Technology Index which posted 4.71% Risk Adjusted Return (Sharpe Ratio).

The investment strategy offers broad diversification and high liquidity which is a very important consideration for the Alpha Beta investment management team and for those overseeing performance. The fund offers broad and efficient exposure and is considered by our managers to represent a strong and attractive investment opportunity. A diversified approach is particularly important where equities are concerned as the marketplace is reasonably large and global in nature. Identifying single offerings is notably difficult and can be very costly – hence this Janus Henderson strategy is appealing. We subscribe to the full liquidity, and value pricing of this fund. However, the strategy is not designed for private investors to access and offers no downside protection when and if markets fall. This is a strategy best selected by professional investors who fully appreciate the benefits and pitfalls and manage the portfolio in line with the mandate description and in sympathy with the prevailing economic and market driving forces.



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