Investment Update

February 2021

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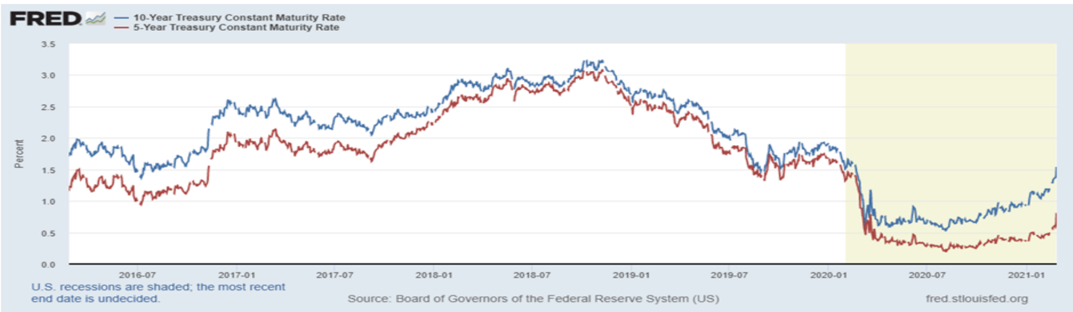
Global equities have enjoyed a meteoric bounce back beginning during the third quarter 2020 and this recovery rolled forward into 2021 at full force. The speed of the recovery led by technology stocks has propelled US indices into technically overbought positions at least until corporate earnings can catch up with share prices. This is bound to create volatility – when stocks are priced to perfection any dissenting news flow is likely to provoke market swings. This phenomenon appeared from the left field during February and although unrelated to market valuations, private day traders, principally in the United States, pushed share prices upwards and then downwards as they speculated on small company shares such as GameStop, an unremarkable video game retailer based in Dallas, Texas.

Perhaps more importantly the Bank of America Investment Manager Survey clearly demonstrated strong and overwhelming optimism for a robust economic recovery from the pandemic. Investor confidence is also visible by observing the Put/Call Ratio which shows more buyers than sellers and the efficacy of vaccines is providing an underpin to positive sentiment.

However, bond yields have been rising during the month which is worthy of further explanation. Bond yields typically rise when inflationary pressure is felt in the global economy and with resounding confidence for a recovery prices of goods have begun rising – you may have noticed? Industrial and other commodity prices, particularly the likes of copper now stand at multi year highs based upon expectation of demand driven by the so called "Green New Deal" which promises renewal of infrastructure and a lower/zero carbon future.

This policy will kick-off the biggest Government spending spree for decades. An increase in bond yields puts pressure on equity valuations and destabilises the market. This has created the most recent short-term bout of market volatility.

The chart shows rising bond yields for US Treasuries.



Last week Jerome Powell, Chairman of the Federal Reserve spoke to Congress and calmed markets by restating the work of central banks has not yet expired – in other words more liquidity will be pumped into economies. A truly massive $1.9 trillion recovery package is awaiting approval, this equating to a further 10% of United States GDP. Possibly meaning yield curve control, to ensure the cost of supporting wartime like debt levels remains affordable.

Mr Powell also made it clear that economies will be allowed to "run hot" – meaning negative real interest rates will prevail for some time to come and inflation will be allowed to nudge the target 2% figure if necessary.

He opined that rising bond yields are in effect a statement of confidence in an economic recovery but did state that where inflation becomes problematic [more than 2% for a sustained period] the Federal Reserve would not hesitate to raise rates.

This is of course the risk to markets and investors that we have pointed to in previous updates. We remain vigilant and focus on important indicators on an ongoing basis.

The new US triumvirate of Joe Biden, Janet Yellen and Jerome Powell seem intent upon a grand renewal policy which should benefit markets and investors alike. Mrs Yellen commented, "with rates at historic lows, the smartest thing we can do is to act big". In UK, markets remain good value and should perform stronger from here.

We are far less concerned about rate rises from the Bank of England as the economic scarring from Covid-19 has been more substantial than in some other countries. The important Service sector is down -14% over the last year, which is the most impacted anywhere in Europe and a recent RICS survey pointed to 1 in 5 high street shops on Oxford Street likely to close their doors permanently.

Across Europe the theme remains much the same with significant support from the ECB but a far slower vaccine roll-out meaning a lag to recovery. China does seem to be pulling through strongly as indicated last month and is supported by OECD growth forecasts. Our decision to reduce US equities and allocate into higher beta markets has begun to work well so far. Japan too is recovering with stocks pleasing on the upside since November.

At portfolio level February has been a quiet month, with no changes made. Over the short term we do anticipate higher volatility in markets for the reasons stated with technology stocks exposed where earnings disappoint. Our central forecast is not for inflation to disrupt progress in a substantial way, but we remain focused and ready to act if needs be. 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. **Written by the Alpha Beta Investment Team.**

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Featured Fund

Ninety One – Global Gold Fund

This is presently one of our consistent portfolio holdings across the AB Model Portfolio Range. The Fund managed by an Anglo-South African asset management business located in London and Cape Town aims to provide a capital return (generated through an increase in the value of assets held within the Fund) by identifying investment opportunities in equities issued by companies around the globe involved in gold mining. The Fund invests in securities (e.g., shares) of companies that make up the fund managers targeted opportunity set.

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 proxy for the underlying securities held and at a sensible price for the overall portfolio to bear.

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 Ninety One 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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