Strategy & Outlook MARKET UPDATE

January 2021

Global equities rose by 2.3% in euro terms in December, to finish an extraordinary year 6.8% higher. 2020 was all about the Covid-19 pandemic with severe lockdowns and closures of vast sections of the global economy to combat the spread of the disease. This saw a peak to trough fall for global equities of more than 33% in Q1, exacerbated in a market that was overvalued, over-owned, with excessive optimism going into the crisis about economic and earnings growth. There followed a formidable rally as governments and central banks globally acted on a truly enormous scale and much more rapidly than in previous crises. Central Banks expanded their balance sheets by more than 10tln USD, almost equal to all prior episodes of quantitative easing over the previous 10 years -the Fed, ECB, BoE and BoJ spent 1.4bln USD every hour between March and November. Governments implemented massive fiscal spending programs to replace lost income for businesses and consumers who were forced to close, equating to more than 10% of GDP. The response by monetary authorities prevented what would surely have developed into a financial crisis, whilst the response of governments prevented widespread hardship in the face of the pandemic, preserving consumer purchasing power and ensuring the recovery would be strong once lockdown restrictions were lifted. Towards the end of the year, several vaccines have been developed and the roll-out of same means the end of the pandemic is in sight, though the rapid spread of the disease over the last few weeks has led to further severe lockdowns in many countries in the short-term.

Aside from the pandemic, Joe Biden’s victory in the US presidential election should bring to a close an era of volatile politics, whilst the last-minute Brexit deal avoids the chaos that no-deal would have brought.

Positioning and Outlook

As we enter 2021, we continue to highlight what we have been positioned for since March and continue to be positioned for. As central banks guarded against a financial crisis and subsequent deflationary-bust they have accelerated a technology-led, reflationary boom. Interest rates will remain at or near zero for a long time to come, and governments will be reluctant to curtail fiscal spending. The collapse in the global economy, the huge fiscal boost and extremely loose monetary policy meant we moved from late-cycle to early-cycle in a matter of weeks. The pandemic, which forced a move to online, has accelerated trends that were already in place in technology. The evidence is overwhelmingly abundant: the dollar is breaking down against every major and emerging currency; copper is at an eight-year-high; iron ore has exploded higher; Korean and Japanese technology stocks are accelerating to new highs; the most recent stimulus package agreed in the US ($900bln) has been described by President-elect Biden as only a “down payment” on what’s to come; there aren’t enough trucks in the US to fulfil UPS and Fedex’s customer demand for e commerce; there aren’t enough semi-conductor parts for Marvell to fulfil its demand for 5G data centres; Ryanair expect to fly 170mln passengers in 2023; Irish mortgage approvals are at a 10-year high; Lloyds in the UK has reintroduced 90% mortgages for first time buyers; the Federal Reserve is permitting bank buybacks again; the CEO of Carnival highlighted that they have two years’ worth of demand from customers with less than 1 year’s usual capacity; S&P companies, which started 2020 with $1.5 trillion of cash on their balance sheets ended the year with $2 trillion; the ISM Index is 5 months into what is usually a 35 month expansionary cycle (according to the CEO of ISM).

What happened in 2020 was unique – we effectively went through an entire cycle (market if not economic) in the space of 6-8 weeks – a process that ordinarily would take many months. But the application of and the output from our active investment process remained the same, continuing to deliver for investors. In a year when equities and bonds returned between 6 and 8%, the Morningstar 5-star-rated MMA 30, 50 and 70 funds returned +12.8%, +16.8% and +22.3% respectively, with our ethically screened version returning +21.2%. As of the end of December, the MMA 70 fund is now the number 1 ranked fund in Ireland on the Aon-Hewitt Multi Asset Fund Survey on a 1-year and 3-year time frame. The survey includes 40 funds of similar risk and structure which are marketed in Ireland (not Irish funds per se). Our global equity fund returned +21.3% on the year, whilst our absolute return fund returned +28.2%.

The merits of investing in our actively managed multi asset funds with a proven investment process continue to be evident. We will continue to actively manage our risk and our exposures using all available instruments, asset classes and derivative products available to us for everything from short term tactical trades to long term fundamental holdings.

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