Strategy & Outlook MARKET UPDATE

April 2021

Global equity markets rallied further in March (+5.6%) to finish the quarter 8.8% higher in euro terms. Within this, there was a notable sector dispersion, driven in part by the global bond sell-off, bonds suffering one of their worst quarters ever. Financials and industrials were strong in March (yields and recovery) yet strangely were outperformed by bond proxies such as consumer staples and utilities, whilst technology (+3.1%) lagged.

The impact of higher yields on technology stocks is well known, though perhaps a more nuanced way to think of this is the impact higher yields may have on the more highly valued assets. Indeed, although the technology sector at one point was down 10% from its recent highs, small cap stocks also suffered a similar correction, and the Renaissance IPO Index was down by 20%.

During the month, the $1.9tln stimulus package was passed by the US (along non-partisan lines) and stimulus cheques are being distributed. The Biden administration has already announced the next stimulus, an ambitious infrastructure plan, though it is likely that this will need to be at least part paid for with higher taxes (on corporations and the wealthy).

The discord between the EU and the UK over vaccine supplies continues, whilst President Biden has doubled his vaccination targets for his first 100 days in office to 200mln. The divergence between the US and the EU in terms of vaccine rollout continues to widen. Angela Merkel announced a hard 5-day lockdown over the Easter break, only to reverse that decision 36 hours later, indicative of the chaotic response in Europe vs the significant progress being made in the US under the Biden administration.

Most interesting this month was the failure of the euro to rally despite the surprising strength of European PMIs. Ultimately the vaccine rollout in Europe (and emerging markets) has been disappointing to say the least. In contrast, the US is booming, whilst China appears to be already trying to slow down/tighten policy. No doubt there will be some input price pressures, with short-term concerns on this increased due to the blockage in the Suez Canal, but with monetary and fiscal policy continuing to support (particularly in the west), economic growth will continue to rebound.

Positioning and Outlook

As the record-breaking equity market rally turned one, major US and European Indices hit new highs to mark the occasion as corporate commentary, company earnings, global growth expectations and investor sentiment (“Retail Stimmy”) buoyed asset markets.

This bull market has been driven higher by a juxtaposing leadership between growth and value stocks. Long end yields rising faster than we had anticipated, and with the Fed’s apparent blessing, will weigh on the short-term performance of growth and technology stocks. Concentrated retail positioning in these single stocks is being exaggerated and mirrored in high profile technology ETF’s which offer daily liquidity despite being invested in illiquid assets. This has the potential to exacerbate any volatility. In the last month alone, the Nasdaq rallied 9% after falling 12%.

The value or cyclical part of the market has now fully priced in the V-shaped recovery it disputed for so long. With the vaccine rollout across Europe and emerging markets disappointing and inflation pressures building due to global supply chain shortages the short-term risk reward across cyclical sectors is the poorest it has been for the whole of this rally. The relentless earnings upgrade cycle we have seen will slow from here.

In summary, the economic growth rebound has been priced in by markets, valuations (particularly vs bonds) are no longer supportive, and investors’ positioning and risk appetite in the market is now extremely elevated. However, there are abundant growth opportunities and these more than offset the cyclical risks.

Over the last couple of weeks, we have reduced our overall exposure to equities and the risk within the equities we hold, and MIM funds are now close to the mid-point of their asset allocation ranges.
The extremely positive medium to long term outlook remains unchanged so any weakness over the coming months will be used to take our exposures back up to the upper end of our asset allocation ranges. 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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