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Portfolio Review *January 2021*

To use a football parlance, January was a month of two halves. As mentioned in last month's update, the early weeks of January always promised to be lively, but no one foresaw the riotous events that led to accusations of insurrection with the storming of the US Capitol. The bitterness in American politics, fanned by President Trump disputing the election result, culminated in the attack which outraged US politicians on both sides of the aisle. The assault whilst shocking, had little impact on the market. The Democrats gained both Senate seats in the Georgia run-off elections meaning that they gained control of the Senate using the Vice-Presidential casting vote, which should result in bigger stimulus plans and infrastructure spending. However, with the smallest of margins in the Senate, it may be hard to push through a more liberal agenda and to reverse the tax cuts from the Trump Presidency. The equity market took this news well, with the S&P 500 making new highs before a dampening came towards the end of the month. This was catalysed by the unusual and highly targeted trading from a cohort of retail investors around GameStop et al, which contributed to a rise in market volatility, and in turn dampened the risk appetite that had pushed the S&P to a new high.

In the background (itself, an unusual statement about the US President), the Biden administration is swiftly rebuilding the diplomatic relationships that had fared so badly under his predecessor. More importantly, Biden's team has hit the ground running and is executing their strategy to pull the US out of the pandemic at impressive speed, having now administered more than twice as many COVID vaccinations (34 million) than the EU (14.5 million).

The concerns over the pandemic and further lockdowns had a negative effect early in the month with a bubbling over of increasingly hostile words between the EU and AstraZeneca. Briefly, the EU imposed the right to ban vaccine exports outside of the EU (and select countries) and effectively imposed a hard border between Northern Ireland and the Republic of Ireland. However this was to prove only temporary, with the hard border reversed and the prospect of export bans to the UK played down. So called 'vaccine nationalism' has been a threat for several months as issues over regional supply chains combine with the sequencing of competing contracts and an increasingly frustrated populace. But as the month progressed, there was also genuinely uplifting news. An all-around positive review of the Russian Sputnik V COVID-19 vaccine was one of them. Not only did it boost the credence of the Oxford/Astra Zeneca vaccine, as they are both based on the same underlying principles, it can also be produced and distributed globally at nearly the same cost and ease as annual flu jabs. And whilst there continues to be criticism in and of the EU, there appears to be an acceptance that while the EU's rushed procurement process had been suboptimal, it is likely to be only a short-term issue, given how vaccine production is ramping up everywhere and even more vaccines are moving closer to being granted their licences.

Another positive development was the resolution of Italy's latest government crisis, with the appointment of former European Central Bank President Mario Draghi to form a new national unity government. The very highly respected Draghi is widely expected to pull off another 'whatever-it-takes' course of action for Italy, much in the same way as he did back in 2012 at the height of the euro crisis, which he was credited with resolving.

The post Brexit transition continues to have its teething problems but importantly the terrifying post-Brexit monsters with which we were so often threatened continue to prove to have been Treasury exaggerations. The month saw Nissan, once held up as one of the companies at highest risk of leaving the UK post-Brexit, come out and announce that the Brexit deal has given it a competitive edge on car battery tariffs. The Japanese company plans to buy more batteries from within the UK and involves the BritishVolt company setting up a new battery plant in Northumberland, in turn creating 3,000 jobs. Nissan's boss said that the Brexit deal will improve Nissan UK's competitiveness, adding that customs costs were 'peanuts' and for a global company like Nissan and filling in a few customs forms was 'nothing'. Early publicity was also given to empty shelves in Northern Ireland supermarkets, despite many in Belfast reporting no problems and Tesco home deliveries arriving with no substitutions. The BBC even showed empty milk stacks but did not mention that Northern Ireland is a major producer and exporter of milk with no need to import.

Ending the month positively, the UK is squarely on the front foot in fighting the pandemic, with a larger proportion of the population vaccinated than in any other large-population country. This encouraging improvement in the timeline to recovery led the Bank of England governor Andrew Bailey to give a surprisingly optimistic outlook for the UK's 2021 economic development. Cash savers were perhaps less enthusiastic about Bailey's comments, given his signal for banks to make preparations to administer negative interest rates to depositors' cash holdings. However, he stressed that preparedness was to be seen as an act of prudent planning, whilst hinting at the probability of a happy ending that would more likely raise expectations of interest rate movements in the other direction. The Bank's call for prudency should be in many ways welcomed as if anything, last year taught us plenty about the importance of advance disaster planning.

Portfolios

The year started favourably with risk assets continuing to climb into the first week, however as news of new virus strains emerged, developed market equities started to retrench whilst emerging markets continued to gain ground. Traditional risk-off assets such as UK gilts dropped fairly markedly and remained subdued through the whole of January.

UK equities remained flat over the month, as did the main US indices. However, the Nasdaq, buoyed by a few large stocks continued to make positive returns finishing up just under 3%. European markets declined approximately 1%.

Movements resulted in the majority of portfolios ending flat for the month. At the lower risk end, growth portfolios associated with 3/10 and 4/10 fell just under -0.5% as the exposure to gilts weighed on performance.

Best performance resulted from the ethical portfolio generating a positive gross return of 0.35% as funds such as the Stewart Investors Worldwide Sustainability fund captured the rise in emerging markets.

The new entrant to growth portfolios, the Goldman Sachs Global Millennials Equity portfolio captured growth in both Nasdaq stocks and emerging markets generating an overall return of +2.5%.

The main inhibitor to performance, mainly impacting at the lower end (as discussed earlier), was the Vanguard UK Inflation-Linked Gilt Index portfolio which fell just over 3%.