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Portfolio Review *April 2021*

Macro Overview

Signs of an accelerating recovery were widely evident in April as the reopening of economies lifted developed markets. Vaccination programmes, particularly in the US and UK, continued apace with 44% and 51% of their respective populations having now received at least one dose. The UK looks set to stay on track for the data-dependent easing of social distancing measures on 21 June, while the US is even further ahead in terms of reopening in most states. In continental Europe, after a slow start the pace of vaccinations has accelerated significantly while prospects for vaccine supply have improved and Covid-19 cases are declining.

The great unlock in developed economies therefore looks firmly underway and activity is surging back in these economies. However, the picture is not as positive for some developing economies, such as India, where case numbers are climbing and pressure on the healthcare infrastructure has intensified. This underscores the need for successful vaccination rollouts to be urgently broadened out to the emerging world.

President Joe Biden has now passed the symbolic first 100 days in office and the key takeaway for investors is that this is a President that is not afraid to spend big. Following the passage of the $1.9 trillion American Rescue Plan in March, last month saw the President outline plans for two more spending packages – a $2.3 trillion American Jobs Plan which will invest in the country's infrastructure and a $1.8 trillion American Families Plan that aims to ensure a more equitable recovery across low and middle-income households. The spending will be paid for through proposals to increase corporate, top marginal income and capital gains tax, the former could have significant consequences for corporate America.

This sets the scene for a period of potentially exceptional growth to come through in the second half of the year. The US will in all likelihood see the strongest growth – having grown at an annualised pace of 6.4% in the first quarter – and while the rest of the world can't match the US's firepower in terms of stimulus, the knock on effect will almost certainly see this become a global story by the end of the year. According to the OECD's macroeconomic model, the US stimulus is likely to boost growth in Japan, Europe and China by over 0.5% in the next 12 months and lift global GDP growth by just over 1%.

Given the strength of the economic backdrop, it is unsurprising that inflation expectations continued to rise in April and from here on, inflation numbers should increase significantly given the low base for comparisons a year ago when the world seemed like a very different place. The biggest question for markets in the second half of the year will be to what extent the rise in inflation is 'transitory' as the US Federal Reserve (the Fed) have labelled it and are therefore willing to tolerate higher-than-normal figures without triggering a policy response. Central Banks around the world are treading very carefully to keep government bond yields under control and avoid a repeat of 2013's 'taper tantrum'. It is likely trends in inflation will push the 10-year US Treasury yield towards 2% by the end of the year which will dictate market leadership with a continued shift towards cyclical and value stocks and away from still expensive growth stocks.

On the back of this, April was another strong month for risk assets, buoyed by exceptionally strong first quarter earnings results in the US and encouraging economic data. The MSCI World Index returned 4.3% in sterling terms over the course of the month. Developed market equities outperformed Emerging Markets, with the US leading the way thanks to its accelerating vaccine roll-out programme and the announcement of further fiscal stimulus measures. The sharp sell-off in US government bond yields paused in April, helped by dovish comments from the Fed, offering some respite to fixed interest investors.

Investor sentiment has been supported by a very strong Q1 earnings season in the US. At the time of writing over 60% of companies in the S&P 500 have reported results with 86% of these beating earnings estimates, well above the five-year average of 74%. One of the key takeaways from these results has been the strength of profitability across the full breadth of the market and the speed at which companies have recovered to their 2019 peaks. Whilst investors have reacted positively to these results, markets perhaps have not moved as strongly as the headline numbers would suggest. This is largely attributable to the very high share price valuations, particularly in the US, with the results somewhat relieving investor concerns over these multiples rather than provide a catalyst for them to move higher.

At a regional level, strong economic growth coupled with the above earnings results drove the S&P 500 index to set 10 new closing highs during the month, finishing up 5.0%. The Dow Jones Industrial Average also set a new high to surpass 34,000 for the first time and end the month up 2.4%. Technology stocks and consumer discretionary stocks were the big winners for the month, while energy and consumer staples lagged the wider index.

UK equities also performed well with the FTSE All Share index returning 4.3% despite the partial reversal of the trend for value stocks (where the UK is well represented) to outperform. The strongest returns came from small and mid-cap stocks, with the FTSE 250 index hitting a new all-time high (up 4.9%) thanks to the strength of domestic stocks which benefitted as the country took additional steps to ease lockdown restrictions; retailers, housebuilders and support services were the standout sectors whilst oil and gas stocks lagged.

It was a broadly similar picture in Europe where information technology and real estate led markets higher, whilst luxury goods stocks were also a beneficiary of increasing consumer confidence and discretionary spending. Markets in Japan were the only region to decline during the month, with the Topix down 2.1%, as Covid-19 infection rates rose, and lockdown restrictions were re-imposed in Tokyo and three other prefectures just weeks after previous restrictions had been lifted. The current restrictions are only planned for 17 days, which could be extended but the political timing remains complicated ahead of the summer Olympics.

Asian and Emerging Markets recorded modest gains in April, with their respective MSCI indices both rising 2.1%. Markets were aided by a stronger economic growth outlook and a weakness in the dollar, however the increasing cases of Covid-19 in certain countries, most notably India, and the slow pace of vaccinations across these countries gave way to investor concerns.

In fixed interest markets, the yield on the 10-year US Treasury actually declined by 11 basis points to 1.63% at month end. Echoing the previous month's comments, the Fed acknowledged improvements in the economy and a better outlook, but clearly downplayed any prospect of removing policy support. Corporate bonds produced positive returns and outperformed government bonds.

Finally, commodity prices continued to rise sharply in anticipation of accelerating economic activity. Agriculture was the best performing component with strong gains for wheat and corn, whilst copper rallied 13% to reach new highs and is now up 27% year-to-date while oil is up 31%. Clearly these will inject strong upward pressure on input costs in the coming months.

Portfolio Review

Pleasingly, all Beckford James portfolios delivered positive returns during the month of April. The best performing portfolio was Ethical, which returned 3.7%, followed by the Growth portfolios in order of descending risk; Growth 10 was up 3.3% and Growth 3 returned 1.8%.

Against their respective benchmarks, all Growth portfolios were marginally ahead whilst Ethical gave the greatest outperformance over its benchmark by around 70 basis points. Income and Balanced Income & Growth gave a narrow underperformance against their benchmarks over the month however, remain comfortably ahead of these for the year to date.

There were some stellar performances from the underlying fund holdings, with the best performing funds unsurprisingly coming from the Ethical portfolio. The Baillie Gifford Positive Change Fund delivered a 7.7% return, whilst there were some other strong performances for the Liontrust Sustainable Future Global Growth Fund and the Janus Henderson Global Sustainable Equity Fund, up 6.2% and 5.3% respectively.

Elsewhere in the Growth portfolios, the recently added Goldman Sachs Global Millennials Fund was the best performing holding, up 6.9%, benefitting from its high weighting to the US market and an overweight in consumer discretionary stocks and information technology. In the UK both the SDL UK Buffetology and Lindsell Train funds delivered strong outperformance of the FTSE All Share Index, as defensive stocks outperformed value stocks, however this strong trend has seen these funds underperform the broader index year to date. Similarly in the US, the Natixis Loomis Sayles US Equity Leaders outperformed the S&P 500 index but is lagging year to date.

At the other end of the spectrum the biggest detractors for the month were the two Japanese fund holdings, reflecting the negative returns from the broader Japanese markets as Covid-19 cases increase and lockdown restrictions are reimposed. As a consequence, the Vanguard Japan Stock Index Fund fell 1.9% and the Baillie Gifford Japanese Smaller Companies fell 0.6%, although the latter was still top quartile for the month.

Finally, the Income and Balance Income & Growth portfolios have delivered strong returns so far this year as funds with a value bias have outperformed. This outperformance paused for breath in April as pressure on bond yields eased. There were some good performances from the UK Equity Income funds, most notably the Chelverton UK Equity Income and Premier Miton UK Multi Cap Income funds, both outperforming the FTSE All Share, however the more globally focussed funds lagged their benchmarks over the month.