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Portfolio Review *November 2021*

November began with markets continuing their advance from the previous month, reaching fresh highs in the first few weeks on the back of strong corporate earnings growth and strengthening economic data. However, a familiar cast of characters meant markets failed to hold on to these gains– namely continuing Covid-19 uncertainty, stubbornly high inflation, concerns over central bank policies and supply chain disruptions.

If these issues collectively weren't enough to derail markets, the additional news that scientists in South Africa had discovered a new variant of Covid-19, which was officially classed as a "variant of concern" by the World Health Organization, sent markets into a tailspin. The final Friday of the month saw markets suffer their worst one day fall since June 2020 as investors fretted over the implications of further lockdown restrictions and the knock-on effect on global growth. As yet little is known about the Omicron variant and whether its mutations will significantly reduce the effectiveness of existing vaccines in preventing hospitalisations. This is clearly the issue to monitor in coming weeks and if they are severe enough to warrant further restrictions on activity, which will only compound existing supply and labour market disruptions.

The emergence of Omicron has reminded us of the uncertainties that remain around the pandemic. Drug companies appear confident that they will be able to produce new vaccines in response to this latest variant so we should remember that we are not back to the "square one" of March 2020 with no prospect of a vaccine. Global growth remains strong, almost too strong in certain parts of the world where central banks are looking to take steps to prevent their economies from overheating. There are a lot of moving parts to the evolving pandemic picture but one thing we can be fairly sure of, is that market volatility is likely to persist until more facts about the new variant are known.

Markets were heavily focused on central bank policy earlier in the month, with announcements from both the Federal Reserve (Fed) and Bank of England on how they intend to normalise monetary policy. First in action was the Fed with its well flagged announcement that it intends to taper its monthly bond purchases with the aim of concluding these by mid-2022. Subsequent economic data continued to be strong with consumer price inflation hitting 6.2% in October – the largest 12 monthly increase since November 1990 – whilst labour markets remain extremely tight, and companies struggle to recruit new staff. This prompted Fed Chair Jerome Powell to comment to the Senate Banking Committee on 30 November that the use of the word "transitory" regarding inflation should be retired and that the Fed should consider accelerating the pace of tapering, despite the extra uncertainties of the Omicron variant.

There are similarities here in the UK. Whilst the Monetary Policy Committee voted not to increase interest rates at their November meeting, defying most economists' predictions for a first hike, economic data clearly shows that it is only a matter of time before they will have to make a move. Labour market data for October, the first month since the end of the furlough scheme, showed unemployment continued to fall coupled with an increase in wage growth. Given the strong demand backdrop as well as accelerating energy prices, inflation in the UK reached 4.2% in October and is likely to move above 5% in 2022, particularly when the UK energy cap for domestic gas and electricity prices is reviewed in April.

Both central banks highlighted that the inflation outlook remains highly uncertain and so much will rest on future inflation and labour market data, to determine how far and how fast central banks raise interest rates. It therefore goes without saying that this pathway to monetary policy normalisation has just become a lot trickier with the Omicron variant. On the one hand we've got a potential easing of growth if restrictions are reintroduced, but inflationary issues are clearly not going away and in the short term may be exacerbated by the Omicron variant which could tighten supply bottlenecks, just as there were some signs these were starting to ease.

Having started the month on a positive footing, equity markets started to falter mid-month and largely ended the month in negative territory. In a similar pattern to that which we have seen many times since the onset of this pandemic, the travel and leisure stocks were particularly hard hit whilst the oil price retreated from recent highs and energy stocks fell as investors fretted over the likely impact on demand in the face of a new round of travel restrictions and other lockdown curbs.

However due to the weakness of the pound, UK based investors found that many of these losses became marginally positive when translated back into sterling. The headline MSCI World Index return therefore actually recorded a positive return of 1.34% for the month, while in the US the S&P 500 was up 2.85% in sterling terms, despite a 0.7% fall in US dollar terms. Returns were also positive in sterling terms for Japanese and Emerging Markets.

For our domestic markets, the FTSE All Share Index fell 2.24% while the more defensive large cap stocks that make up the FTSE 100 fared slightly better than the smaller companies making up the FTSE 250. It was a similar picture in Europe where rising Covid-19 cases prior to the emergence of the Omicron variant had prompted some countries to reintroduce mobility constraints to curb the spread of the virus which, together with rising inflation numbers, have weighed on investor sentiment. The FTSE World Europe ex UK Index recorded a negative return of 1.71%.

As usual for a period of heightened uncertainty there was a rush to perceived safe havens, with large caps outperforming small caps and defensive growth stocks outperforming value names. Government bonds rallied, particularly here in the UK after the Bank of England kept rates on hold. Whilst it is likely that market volatility will remain elevated until more is understood about the new variant, we should not lose sight of the fact that markets have made considerable progress since this time last year when the vaccines were first announced.

Portfolios

After making steady progress in the early part of the month, unsurprisingly the Beckford James portfolios fell in line with global stock markets at the end of the month. Predictably the lower risk profiles fared better than the higher risk profiles which have more exposure to equities. Growth 3 held up best, delivering a positive total return of 0.31%, while Growth 10 was the weakest performing portfolio with a return of -0.81%. It is easy to focus on the negative newsflow and headline numbers, but it should be remembered that portfolios have still delivered healthy returns year to date and remain higher than at the onset of the pandemic in March last year.

The best performing funds in the Growth portfolios were the two US funds, Natixis Loomis Sayles US Equity Leaders and Vanguard US Equity Index, up 3.8% and 3.6%, respectively, whilst Fidelity Index World also contributed positively, up 2.4%. In terms of detractors, the Natixis H2O Multi Returns was the weakest performing fund, down 5.9% whilst the Premier Miton UK Growth and Amati Smaller Companies weighed on the UK equities front.

Elsewhere the Income portfolio fell 0.89%, held back by its exposure to more value type investments which underperformed the more defensive growth type stocks during the month. The Ethical portfolio was largely flat over the month with some stronger performances from Asian funds offsetting weakness in the UK element of the portfolio.