Client Portfolio Monthly Update – February 2021

The momentum of the US and UK stock markets continued into February. The successful roll-out of Covid vaccines underpinned the positive sentiment which was further boosted by good economic data. US retail sales rose 5.3%, the most in seven months, and was evidence that US consumers were out spending their stimulus cheques as Covid restrictions relaxed. However, with Americans already in receipt of some $900 billion, and with another $1.9 trillion pencilled in under the new President Biden administration, concerns emerged that further stimulus could spark a dramatic pickup in inflation. This was reflected in the bond markets as the US 10-year Treasury yield rose to 1.42%, having only been 0.92% at the start of the year. The UK's 10-year Gilt yield followed the rise, moving from 0.25%, up to 0.75%. In both cases, the moves returned bond prices to roughly where they were before the Covid pandemic.

The rise in yields on both sides of the Atlantic started to impact stock markets towards month end. This was perhaps more understandable in the USA where stocks have staged such a remarkable recovery since April of last year. Indeed, it was seen by many as no more than an excuse for some profit taking. In the UK, there was a notable rise in the share prices of dozens of companies that have been most affected by the Covid-19 lockdown. Shares in Cineworld nearly doubled and there were big gains in the leisure, travel and entertainment sectors. The volatility in this more speculative end of the market was easily moved by news of a relaxation of restriction but equally easily quashed on speculation that a new strain of Covid-19 could send the entire country back to square one.

It was against this backdrop that the UK stock market retreated from mid-February highs to finish the month up around 1.8%. Nevertheless, notwithstanding the rise in bond yields, there was a palpable sense of optimism in February and gold, which many saw as a safe haven throughout the pandemic, lost more ground, falling 6.4%. UK investors ended February eagerly awaiting the Chancellor, Rishi Sunak's, budget on March 2nd, which is expected to extend support for jobs, business loans and the self-employed.

At FACET, our investment team has maintained a positive exposure to equities generally as this is where we believe there is greater opportunity given the diminishing risks to the prospect of a return to economic lockdown. We will watch closely for signs of a pick-up in inflation but are also conscious that the US Federal Reserve are sending markets the very relaxed message that they will tolerate a spike well above their 2% inflation target if they deem it to be a temporary development that is beneficial for economic recovery in the longer term.

Moving onto matters closer to the model portfolios, the FACET Investment Management Committee (IMC) have made one amendment to the portfolios this month. More specifically, all portfolios over and including Risk 4. Fidelity announced that it would be rebranding the Fidelity Emerging Asia fund, moving the funds focus to more sustainable and ESG investing rather than primarily finding emerging market opportunities. Therefore, the IMC selected the Fidelity Asia Pacific Opportunities fund to replace. No changes have been made to the weightings, purely a like-for-like switch.

Something that has become a hot topic of conversation this month has been the impact the Baillie Gifford American fund has on our portfolios. In a period of uncertainty, this fund has been our driving force to very strong returns, as seen throughout 2020. A likely reason as to why this is the case is the high exposure to the "stay-at-home stocks", e.g. Amazon, The Trade Desk, ROKU, Netflix etc. However, the closer we come to a post-COVID time, this fund has experienced some shortfalls. Even though this fund has performed extremely well for us in the past, this fund has been placed on the IMC's watchlist. The IMC are determined not to be swayed by past performance and will only look at indicators on how the fund will perform going forward.

Information in this report is at the last valuation point on 01st March 2021 (except where indicated).