Client Portfolio Monthly Update – March 2021

The US stock market continued its surge to new all-time highs, up 4.25% for the month of March. It has been a remarkable recovery from the lows just over a year ago. With the exception of a couple of setbacks during the second pandemic wave last summer, and speculation ahead of the US Presidential elections in November, the market has exhibited an almost unbroken rise. The successful rollout of Covid-19 vaccinations has given investors renewed confidence that global growth is set to return, led in most part by the recovery of the US economy.

UK stocks outpaced their European peers, and banking stocks in particular benefited from the rise in bond yields. The BoE's decision to keep rates on hold rather than cut last December appears now to be vindicated. The UK is currently looking forward to the reopening of its economy. Despite the variance in the pace of the vaccination programs between the UK and the rest of Europe, both markets followed the US higher as investors looked more to the longer-term prospects for their economies.

The main trigger for the new surge in stocks was the passing of the full $1.9 trillion stimulus package proposed by President Biden's administration. It is estimated that this could add up to 6% to the US 1st quarter GDP if the effect is similar to the impact of the $3 trillion unleashed directly to US consumers last year. Indeed, prospects for the summer economy could be even more dramatic because the US economy was locked down last year. The US savings rate rose by 33% last year to a staggering $6 trillion. Concern that such a large amount of money could spark an inflationary boom was already evident in February when the US 10-year yield rose to 1.45%. However, it rose further to 1.74%, a far bigger rise than its UK counterpart, the 10-year Gilt yield, which rose just 0.2% to 0.85%. Due to the implied rise in future US interest rates, the US dollar strengthened against the index of major world currencies.

In general, March was dominated by moves in the US markets and the combination of rising stock markets, rising interest rates and a rising dollar gave comparisons with periods of "US exceptionalism" whereby US assets appear more attractive to international investors than elsewhere. For now, the moves reflect a firmly optimistic outlook for a return to more normal times for companies and consumers alike. However, as we move into the second quarter, investors globally will be watching for any signs that the economy may be running too hot. More importantly, The US Federal Reserve will also be watching if inflation creeps higher than their 2% target rate.

Unfortunately, the model portfolios have had an uncharacteristically poor month. All 9 portfolios have produced small negative returns, with the lower risk portfolios having the smallest negative return and the larger risk levels with slightly higher negative returns. March was a month of two halves, with the first 9 days of the month doing most of the damage. The second half of the month has seen the portfolios bounce back, but the fall performance was too strong to completely overturn. The Baillie Gifford American fund can be to blame for some of the downturn, with the underlying asset returning -11.86% over the month of March. One thing to note, however, is that the portfolios are well-protected against poor performing assets. This can be seen by the fact that our portfolios have only produced very small negative returns compared to the large negative returns of last year's best fund. The Baillie Gifford American fund still proves to be a strong, top-quartile underlying asset in our portfolios over a longer time frame and their objective to outperform the US stock market index by at least 1.5% per annum over rolling 5-year periods aligns with our investment views.

The Facet Investment Management Committee (IMC) are meeting mid-April in which we will be reviewing the portfolios in great detail. No amendments have been made this month to the model portfolios. We are committed to completing in depth analysis over 3 months, 6 months, 1 year and longer time periods on whether performance of our funds have excelled or underperformed, and we will be basing our actions around these findings.

Information in this report is at the last valuation point on 31st March 2021 (except where indicated).