Client Portfolio Monthly Update – May 2021

The old anecdote of "Sell in May and go away" failed to materialise as developed stock markets enjoyed yet another positive month. The continued successful roll-out of vaccines in the US and UK added to the positive mood and European stocks made the most gains as their stalled vaccination programs started to catch up. The continued lifting of lockdown measures since the beginning of the year is now showing up in economic data and May was full of strong manufacturing data in the US, UK and Europe.

The Purchasing Managers Index (PMI) was exceptionally strong in the USA in May, the highest on record, and was accompanied by a much stronger than expected pick-up in consumer demand. Indeed, such is the acceleration that many smaller companies are experiencing bottlenecks in production and rising costs. Many smaller companies reported difficulties in recruiting staff as the labour market tightened up. In the UK, similar problems were reported in the PMI survey for May with manufacturers citing production delays and delivery schedules are lagging behind a big pick-up in demand. This was evident from UK retail sales data for May showing a pickup of 9 percent in just one month. UK stocks continued to rise, up 1.1% for the month, bringing the total year-to-date gain to over 10%.

The stronger than expected data came on top of rising inflation figures – something which has been bugging investors more than the Covid pandemic itself. In the US, headline inflation came in at 4.2% in April, much stronger than expected, stoking concerns that interest rates may have to rise to dampen it down. However, the Federal Reserve has been very careful in its communication to nervous markets and, despite some acknowledgement that the long running QE program will have to be wound down eventually, that time is not now. The minutes of the Fed's meeting showed no change in policy and stock and bond markets responded positively as a result. The outlook for the developed economies is looking very positive for the remainder of the summer as Covid restrictions are lifted further or abandoned altogether. However, the prospect of a further rise in inflation will probably remain the central concern for investors.

Undoubtedly, there are some elements of the economic recovery which are temporary and will not be repeated next year. The extent to which central banks will look through inflation running well above their 2 percent targets will be carefully watched. We expect markets to react to official statements of intent rather than an actual rise in interest rates which, for now, would appear far too premature. The steady rise of stock markets this year has surprised many for its strength and duration but now rely heavily on central bank action (or rather a lack of it).

Whilst FACET client portfolios recorded positive performances across the board, we maintain a cautious stance and will be watching markets very closely during what would normally be quieter season for investors.

It was mentioned last month that the Investment Management Committee (IMC) were assessing the performance and suitability of one of the underlying assets in the model portfolios, the Lindsell Train UK Equity. After possible alternatives were researched and put through strict due diligence, the IMC decided that an amendment should be made to the portfolios, removing the Lindsell Train UK Equity fund and replacing it with a strong performer in the MI Chelverton UK Equity Growth fund. With this fund being placed in the top quartile from 3 months to 5 years*, this fund will hopefully be a positive contributor to our portfolios, with every risk level being exposed to this fund in some way.

This amendment has started to impact our portfolios immediately as the MI Chelverton fund has outperformed the Lindsell Train fund by 2% in just over 2 weeks. As you know, Facet do not look for over-volatile funds, that value risk less than performance, but with this switch, the IMC felt that the fund has large potential to produce positive returns that will benefit our portfolios.

Information in this report is at the last valuation point on 4th June 2021 (except where indicated).
*source: FE Analytics