FACET

Client Portfolio Monthly Update – July 2021

August's MPC meeting will be vital in the Bank's plans to both support the economy and head off inflation that is continuing to rise, but at a snail's pace. Whilst there are no signs that interest rates will change, meaning they stay at historically low levels, the discussion about beginning the taper of asset purchases will be significant. It remains to be seen whether the vote to retain the current level of purchases sees any votes against. If it were to occur, it would be a dramatic signal to the market that the end of support for the economy is fast approaching. As of the 5th August, which was the last MPC vote, it remained at 7-1. This has steadied views slightly as the market was watching to see if the vote went 6-2 putting us nearer the withdrawal.

Talking more on economic support, the fiscal effect of the withdrawal of furlough payments will be difficult to judge as there are parts of the economy that have only survived due to its staff being paid by the Government. The Chancellor will present the latest forecasts for both the economy and the fiscal state of play to Parliament on 27th October. However, there is growing speculation that the Chancellor is going to delay his budget until next year. While this will be jumped upon as yet more evidence of dithering, it does make perfect sense with the withdrawal of support now well under way.

Data for GDP growth between April and June was released this month and although it took the economy back above its pre-Pandemic level, it was something of a disappointment, missing the market's expected level by some margin. The economy grew by 6.5% in Q2, up from 6.3% in Q1. The market, however, was expecting a rise of around 8.5%. With analysts expecting this to be the end of stellar numbers as the economy has continued to recover, but at a more sustainable pace and supply bottlenecks subsiding, Q3 may see both growth and inflation at more reasonable levels.

The month of July has produced a mixed bag of results for the Facet Model Portfolios, with first 4 portfolios, going from Risk 2 to Risk 5, outperforming their sector benchmarks. However, the riskier portfolios, Risk 6 to Risk 9, have underperformed. This table shows the full results of our portfolios in July. *

		1m	Sector 1m	Relative to Sector
0-35% Shares	Risk 2	1.34%	0.71%	0.63%
	Risk 3	1.79%	0.71%	1.08%
20-60% Shares	Risk 4	1.76%	0.58%	1.18%
	Risk 5	1.07%	0.58%	0.49%
	Risk 6	0.00%	0.58%	-0.58%
40-85% Shares	Risk 7	-0.40%	0.42%	-0.82%
	Risk 8	-2.40%	0.42%	-2.82%
Global	Risk 9	-3.78%	0.20%	-3.98%

The underperformance of the higher risk levels mainly came down to poor performance over 1 month from our Emerging Market Equity exposure as well as our Asia Pacific ex Japan Equity funds. The worst performing underlying asset in July was the UBS – Global Emerging Markets Equity fund, returning -7.25%. Due to the level of exposure to these funds increasing as the levels of risk increase, the highest risk levels have the most exposure to these underperforming funds and therefore have a greater negative impact on the portfolios.

The highest performing underlying asset this month was the Royal London Index Linked Fund returning a staggering 7.21% over 1 month, and this fund is found in the lower risk levels, Risk 2 to Risk 5. This further exaggerates the difference in performance in our portfolios. Other good performers were the Premier Miton European Opportunities fund and the UK Buffetology fund, both returning over 4.50% in 1 month.

The Investment Management Committee met this month to discuss the Facet Model Portfolios in detail, looking at a vast array of data. As a group, we identified that there were a small number of areas in the portfolios that need to be reviewed in greater detail, one of which is the exposure to Japan. Currently, both the Japan funds are under close watch due to falling off of performance, and the IMC are looking for alternative options to replace either one or both of these funds. As it stands today, there have been no amendments to the portfolios, however we expect some changes to the portfolios imminently.

Information in this report is at the last valuation point on 31st July 2021 (except where indicated).
*source: FE Analytics