January 2021
Market Review

evidence based investments

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Global Equities Markets (%)						
As of 31/01/2021	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
MSCI Asia Pacific (ex-Japan)	3.61	13.97	3.61	28.71	28.74	119.95
MSCI Emerging Markets	2.60	13.82	2.60	22.77	17.92	108.00
MSCI ACWI IMI	-0.63	11.16	-0.63	12.89	29.55	95.16
FTSE All Share	-0.81	16.14	-0.81	-7.55	-1.60	31.47
S&P 500	-1.49	7.26	-1.49	11.95	41.85	112.03
MSCI Europe (Ex-UK)	-2.25	13.13	-2.25	6.76	12.35	61.29

Source: Morningstar

OVERALL MARKET BACKDROP, JANUARY

- For the second month running, the Emerging Markets and the Asia Pacific ex-Japan regions proved to be a beacon of light for equity investors as they led global equities and were the only regions showing positive returns. They did, however, trade places, with Asia Pacific ex-Japan knocking Emerging Markets off the top spot for the month.

- After flying out of the gate at the start of January, most developed markets lost their head of steam and entered into negative territory as the month wound to a close.

- Defensive assets were on the back foot for most of the month; the 10-year US treasury yield ended on 1.07%, an increase of 14 basis points from the start of January.

- Small-Cap continues to lead the way and be the outperforming factor as it extends its run as best performing factor to four straight months.

DRIVERS OF MARKET CONDITIONS IN JANUARY

1. The start of January saw global equity market optimism, with the S&P 500 scaling new heights, driven by the prospect of a more aggressive US fiscal policy under the new Biden administration. However, a deadly insurrection on the US Capitol soon halted thoughts of a peaceful transition. The latter half of the month has largely focused on the shifting dynamics in Washington, with Donald Trump proving to be the hardest 'ex' to get rid of since Glenn Close in 'Fatal Attraction'. The Republicans (aka the 'Grand Old Party, or 'GOP') is quickly learning that you can't keep dancing with the devil and then wonder why you're still in Hell. Consequently, Republicans are seeking to extricate themselves from Trump in a way that does not also involve losing the votes of his 'base', or in any way anger or alienate the new GOP kingmaker and his 'Save America' Political Action Committee (PAC) money. Needless to say, attempting to spend

$1.9 trillion of taxpayer money on economic stimulus while preaching bipartisanship is a tougher task at the moment than simply counting the votes.

2. Similarly in Europe and the UK, this early momentum was quickly halted, only for different reasons, as extended lockdown measures and outright closures of travel corridors were reinstituted in the latest bid to combat the pandemic. While the vaccine rollout is now well underway in many countries, the spreading of a more infectious strain of the virus that was first recorded in south-east England, as well as another variant emanating from South Africa, has the market second-guessing itself and scrambling to answer questions regarding the efficacy of existing vaccines against the new mutations of the virus. The month ended with the grim statistic of global COVID-19 cases officially surpassing the 100 million mark.

3. President Joe Biden wasted no time in getting to work, having already proposed a $1.9 trillion "American Rescue Plan" fiscal package. The package is on top of the bi-partisan $900 billion stimulus that was agreed in late December. One can't help but feel that his message of unity and bipartisanship has been taken out for a test drive by a group of 10 Republican senators who have put that message to the test with a somewhat derisory 'counter offer' of $618 billion, less than a third of the amount that Biden's plan has called for. While wishing to act in a way that is inclusive of those on the right, Biden has been keen to stress that he sees the dangers of doing too much to be far outweighed by the dangers of doing too little. The market will watch keenly for any suggestion that the Senate may pass the far larger Biden stimulus by virtue of a 'budget reconciliation' motion, that would essentially provide for passage by a simple majority (i.e. 51 Senate votes, or – critically – 50 plus the deciding vote by the Vice President in the event of a 50-50 tie) rather than the three-fifths (or 60 votes) majority required otherwise. This proves to be an early test of Biden's resolve, and initial noises from the White House suggest he sees bipartisanship as important, but rapid and expansive fiscal stimulus as vital.

4. European equities had a tough time in January. The weakened activity within Europe still highlights the ongoing struggle the region is having with the enduring pandemic. The new and more infectious virus strains have only magnified the problem, leading to many countries once again reverting to lockdown measures. The Italian economy is also in the midst of a political crisis, although this is less unusual than perhaps it ought to be. It seemed as though the crisis had been averted when Prime Minister Giuseppe Conte survived a no-confidence vote in parliament. However, Conte then proceeded to resign his post in a move widely viewed as a tactical manoeuvre to boost his chances of leading a subsequent new coalition government.

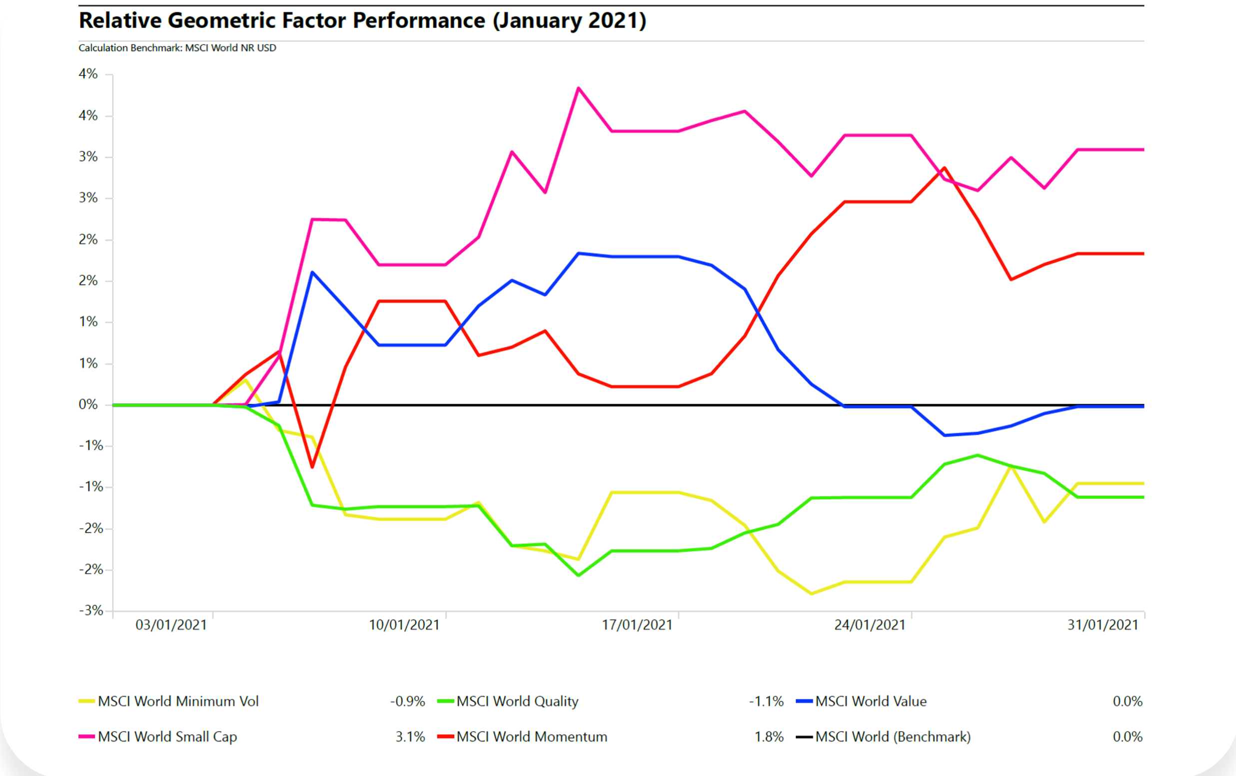
5. After a strong showing in fourth quarter (Q4) of 2020, the UK equity market suffered yet another blow in January. Economic activity is once again feeling the pinch from entering a national lockdown. On the positive side, however, the UK vaccine rollout has been relatively successful when compared to those of its counterparts in the rest of Europe and the United States.

6. As was expected from the very outset, the fact that China was first to contract, and develop a plan to rein in, the COVID-19 pandemic, coupled with the virtually unrivalled ability of its government to impose measures that most democracies in the world would balk at, has meant that China has seen a 'first hit, first to recover' scenario with respect to its' economy. While Q4 GDP numbers are not in for all major nations at this point, it would come as no surprise to find that China will be the only major nation to see actual growth in 2020. Q4 2020 GDP for China was announced at +6.5%, the highest quarterly growth reading since 2018, while overall 2020 real GDP growth stood at +2.3% YoY. While this seems certain to outpace all other major nations, perhaps some sense of context comes from the fact that this is the worst reading for Chinese GDP growth in some 44 years. Despite this, the International Monetary Fund (IMF) projects growth for 2021 of some 7.9%, and China remains below average in per capita GDP growth, with room to catch up. Industrial production, exports and property have all been robust in the second half of 2020, with the consumer sector, while somewhat behind these standouts, still displaying amazing resilience under the circumstances.

7. In the bond markets, US Treasuries sold off during January, initially in tandem with a sell-off in defensive equity names, but subsequently on the back of statements from the Fed pointing to increased inflation expectations as a result of the newly proposed stimulus package announced by President Biden.

8. Lastly, just to confound those who think they have seen everything: January saw real yields on US investment grade corporate bonds turn negative for the first time in history. The mushroom cloud of Fed monetary policy and a firming in inflation expectations were the harbingers of this unprecedented scenario.

HOW DID FACTORS PERFORM IN JANUARY?



The chart shows the relative Factor performance benchmarked against a global index (MSCI World).

- Small cap was the standout performer for January among our factors, as a new government in the US, a vaccine rollout, and a recovery in China all pointed to increased optimism and a rotation to the risk-on trade.

- While the global index gave up ground during the month (for reasons cited above, among others), momentum stocks continued to eke out gains, though the upward momentum of momentum (pun intended) is coming under serious pressure.

- The flip-side of these upward moves in small cap and momentum stocks is that minimum volatility and quality factors will be subdued.

- Minimum volatility deliberately seeks to curtail upside moves by enhancing support on the downside (with its added value being seen in its ability to insulate itself from more of the downside losses than it foregoes in upside returns).

- Quality is likewise an outperformer in down markets, as it seeks alpha (or performance above the market at large) from finding companies with low earnings volatility and low levels of leverage (both operating and financial), and as such acts as a counterbalance to momentum and small cap.

Factor Performance (%)						
As of 31/01/2021	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
MSCI World Small-Cap	1.60	19.05	1.60	16.86	28.69	99.23
MSCI World Momentum	0.36	8.80	0.36	20.95	53.85	138.46
MSCI World	-1.44	9.60	-1.44	10.83	31.55	93.37
MSCI World Value	-1.46	11.01	-1.46	-3.25	5.55	53.18
MSCI World Minimum Vol	-2.38	0.83	-2.38	-5.25	22.07	60.83
MSCI World Quality	-2.54	5.74	-2.54	14.22	51.52	118.65

Source: Morningstar

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