evidence based investing

February 2021 Market Commentary

Global Equities Markets (%)						
As of 28/02/2021	1 Month	3 Months	1 YTD	1 Year	3 Years	5 Years
FTSE All Share	1.99	5.07	1.16	3.50	3.76	33.02
S&P 500	0.88	0.75	-0.62	19.32	44.05	110.61
MSCI ACWI IMI	0.83	2.72	0.20	20.13	32.08	94.34
MSCI Europe (Ex-UK)	0.29	0.04	-1.97	13.20	15.75	62.47
MSCI Asia Pacific (ex-Japan)	-0.58	7.55	3.02	28.85	30.28	117.35
MSCI Emerging Markets	-1.03	6.46	1.54	24.29	18.55	102.58

Source: Morningstar

Overall Market Backdrop, February

- Across the world, the impetus changed during the month from vaccine availability to vaccine rollout, as we saw multiple products hit the market to combat COVID-19, and the focus switched to how well nations were navigating the Herculean logistical challenge of a nationwide vaccine rollout program. The UK and US rollouts have garnered particularly positive press, and point to the possibility of a large-scale re-opening of their economies by the second half of the year.

- As a huge caveat to the above, worrying mutations have arisen across the globe, and each new strain begs the triumvirate of questions, namely: 'How effective are current vaccines against this strain?, 'Is this new variant more transmissible than others?' and 'Is this mutation deadlier than the others?' Each new variant reminds of the Churchill quote:

  "This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

  Perhaps even more troubling is the fact that, despite seemingly having been around for an eternity already, COVID-19 is a new disease, and as such any data on long-term effects is a complete unknown at this stage. We simply have no current way to gauge if there are any longer-term complications from a prior infection, even among the vast bulk of people who were initially asymptomatic. The passage of time is the only thing that can shed light on this, and until then it must remain a 'known unknown' that we are mindful of.

- Developed market equities posted positive returns, with Europe particularly strong in local currency terms. The CAC 40 posted a 5.63% gain, the DAX 30 a 2.63% gain, and the broad-market Eurostoxx 600 was up for the month to the tune of 2.31% (for completeness, the S&P

500 in the States was up 2.8%.) However, strength in Sterling throughout February translated these gains to a Europe ex-UK gain of just 0.28% in Sterling terms and the S&P 500 to 0.88%, as seen in the above table. Meanwhile. The FTSE all share shrugged off Sterling strength to post a 2% gain, largely on the news of the vaccination programme which hit 20 million people by month end.

- Likewise, any positive movements in Asia ex-Japan and emerging markets were nullified by the moves in Sterling.

- If the British Pound continues to strengthen (which we have little reason to believe will not be the case, given the end of the possibility of a 'no-deal' Brexit coupled with the relative success of the UK vaccine rollout programme), then we can expect a continuation of the outperformance of UK small cap stocks relative to large cap, since they have far less exposure to overseas markets than the large cap stocks, and thus are not as exposed to the dilution of overseas earnings when translated back into Sterling.

Drivers of Market Conditions in February

- UK retail sales came in weak due to the latest lockdown measures, posting a -8.2% month-on-month drop, but the Purchasing Managers Index, a leading indicator, pointed to improving sentiment among businesses, with the Manufacturing Index posting a reading of 54.9, while services came in at 49.7 (a reading over 50 is seen as expansionary, so these are clearly welcome.)

- In the US, President Biden hit the ground running, initially setting about dismantling (through the use of various executive orders) some of the Trump-era policies (notably halting construction of the Keystone XL pipeline and re-joining the Paris Accord), but more tellingly in advancing a $1.9 trillion fiscal stimulus bill, which, as of this writing, has passed the House and is set for a floor vote in the Senate as early as Wednesday, 4th March.

- This latest round of stimulus, if enacted as is, could mean overall stimulus for the US economy totalling around 13% of GDP in 2021. This is on top of the massive stimulus already delivered earlier last year. This new round of stimulus, and notably the enhanced unemployment protections, will provide a significant boost to consumer spending, especially once restrictions are fully lifted, but there is caution in this too. Excessively accommodative monetary stimulus, coupled with unprecedented fiscal stimulus would seem to be very much what is required right now, but if a short-term spike from pent-up demand outstrips the ability of a supply chain that is returning gingerly, we could see inflationary pressures. Those on the left feel that unemployment is a bigger problem than inflation at present, with Biden himself saying that the risks of doing too much were outweighed by the risks of doing too little. This may well spark a new debate on Modern Monetary Theory, and inflationary pressures in the coming months need to be carefully parsed.

- At present, we have not seen any inflationary pressure of note in the US, with January coming in flat ex-energy. While there is a strong possibility this will rise going into the summer months, it is also felt that such pressure will be short-lived.

- The bond market is already pricing in the effects, with the US 10-year yielding 1.42% at end of February, versus 0.91% at the start of the year; a gain of some 51 basis points. In an effort to ameliorate market jitters over this rise in yields, the Fed reiterated its stance on asset purchases, according to the minutes of its January FOMC meeting, stating that it would be "some time" before it considered reducing these purchases.

- US retail sales (ex-autos) bounced 5.9% month-on-month in January, thanks in no small part to the $600 stimulus cheques mailed out during that month, while the leading sentiment indicators, the manufacturing and services PMIs posted readings of 58.5 and 58.9, respectively.

- The vaccine rollout in the Eurozone has not been as smooth as those in the UK and US, with European Commission (EC) President Ursula von der Leyen admitting that there had been delays.

- Better news came out of Italy, where a large majority of the parliament approved the formation of a new government under the leadership of former ECB President Mario Draghi, thus avoiding the less desirable scenario of snap elections held during a pandemic. The prospect of his steady hand on the tiller proved a boon to Italian government bonds, with the 10-year spread over equivalent German government bond yields dropping to 1%.

- The European Parliament has given the go-ahead for the Recovery and Resiliency Plan, and it now awaits ratification. Once this is done, individual states can then submit projects for the approval of the European Commission. In the words of the Bard, however, "There's many a slip 'twixt the cup and the lip", and the efficacy of this plan will lie in how quickly implementation follows approval. If successfully implemented, then the Eurozone could start to see a reversal of the net equity outflows witnessed in recent years.

- Sentiment remains a mixed bag in the Eurozone, with manufacturing PMI showing a relatively robust reading of 57.7, while services remained weaker at 44.7, and only a modest uptick of 0.7 points on the consumer side.

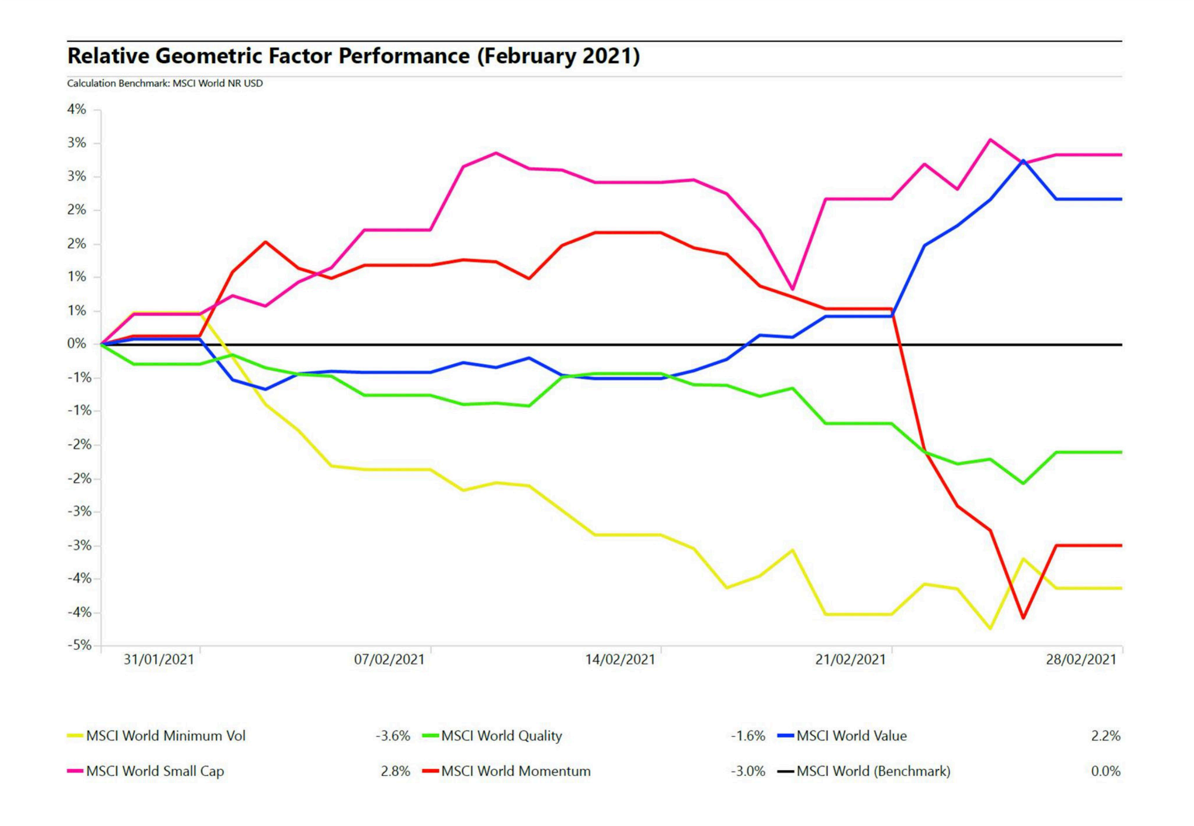
- China continues to see a strong 'V-shaped' recovery, further validating the thesis that first to suffer will be first to rebound. This perception took a slight hit in February, however, as a small flare-up in new COVID cases caused some renewed travel restrictions around the Lunar New Year. Market sentiment for China is now largely centred around house price inflation and its effect on stimulus going forward, with the People's Bank of China keeping its cards close to the vest by maintaining that its stance is one of prudent but flexible policy.

How did Factors Perform in February?

- Amid the backdrop of normalisation and rising bond yields, the rotation into value and small cap continued; while the S&P 500 rose 2.8% , the broader Russell 1000 sub-indices tell the real tale – Russell 1000 Growth Index posted a -0.1% loss for the month, while the Russell 1000 Value Index rang up a 5.8% gain.

- As noted above, with respect to the UK equity market, the continued strength of Sterling will provide an updraft for smaller companies whose revenues will not suffer from the overseas currency exposures that their larger brethren face.

- The rotation toward size and value comes at the expense of momentum and minimum volatility, and further adds credence to our mantra that all of our factor exposures be viewed as parts of a working machine, and not as stand-alone components. Managing the 'risk' part of risk-adjusted returns is just as important as how the 'returns' portion performs.



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

Factor Performance (%)						
As of 28/02/2021	1 Month	3 Months	1 YTD	1 Year	3 Years	5 Years
MSCI World Small-Cap	3.12	9.87	4.77	28.60	33.94	100.46
MSCI World Value	2.84	2.49	1.33	6.66	10.80	55.84
MSCI World	0.74	1.07	-0.72	18.17	33.95	92.80
MSCI World Quality	-0.59	-1.89	-3.12	19.26	50.83	114.12
MSCI World Momentum	-2.41	-0.21	-2.05	23.22	47.88	131.63
MSCI World Minimum Vol	-3.38	-5.99	-5.68	-3.54	19.07	49.52

Source: Morningstar

Disclaimer

We do not accept any liability for any loss or damage which is incurred from you acting or not acting as a result of reading any of our publications. You acknowledge that you use the information we provide at your own risk.

Our publications do not offer investment advice and nothing in them should be construed as investment advice. Our publications provide information and education for financial advisers who have the relevant expertise to make investment decisions without advice.
The information we publish has been obtained from or is based on sources that we believe to be accurate and complete. Where the information consists of pricing or performance data, the data contained therein has been obtained from company reports, financial reporting services, periodicals, and other sources believed reliable. Although reasonable care has been taken, we cannot guarantee the accuracy or completeness of any information we publish. The views expressed our publications are the author's own and not necessarily those of EBI Portfolios Ltd. Any opinions that we publish may be wrong and may change at any time. You should always carry out your own independent verification of facts and data before making any investment decisions.

Past performance is not a reliable indicator of future results. The value of investments, and the income from them may fall or rise and investors may get back less than they invested.

Suite 7, Beecham Business Park, Northgate, Aldridge, WS9 8TZ 01922 472 226 ebi.co.uk enquiries@ebi.co.uk