evidence based investing

Monthly Report
December 2021

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GLOBAL EQUITIES MARKETS (%)						
As of 31/12/2021	1-MONTH	3-MONTHS	YTD	1-YEAR	3-YEARS	5-YEARS
FTSE All-Share	4.68	4.20	18.32	18.32	27.16	30.19
MSCI Europe (Ex-UK)	3.94	5.20	16.73	16.73	50.54	57.19
S&P 500	2.02	10.41	29.34	29.34	85.46	107.14
MSCI ACWI IMI	1.56	5.62	19.31	19.31	63.29	76.57
TOPIX	-0.38	-5.20	1.69	1.69	26.75	33.38
MSCI Emerging Markets	-0.49	-1.76	-1.64	-1.64	28.40	46.09
MSCI Asia Pacific (ex-Japan)	-0.53	-1.42	-3.47	-3.47	33.90	52.92

Source: Morningstar

Overall Market Backdrop, December

- Equities had a bumpy ride in December, spearheaded by a multitude of factors driving markets, from monetary and fiscal policy transition to pandemic uncertainty.
- Even with there being an abundance of reasons for market volatility, markets came out reasonably well and even yields continued to rise; the US 10-Year treasury increased to 1.51.
- Value was the best performing factor of the month, with a return of 4.1%.

Drivers of Market Conditions in December

- Global Equities tumbled during the start of December due to rising cases of Omicron. This was coupled with vaccine concerns as the efficacy of the current vaccines was questioned. Even after a difficult start to the month, most Global equities ended the year near record highs fighting off the impact of the current surge in COVID-19 cases even after figures showed that cases surpassed peak levels last seen since the start of the pandemic.
- The month of December saw developed markets performance split, while UK and European equities came out unscathed from the recent omicron assault, the same can't be said about US equities. The US saw some extra volatility due to negative outlooks coming from the FOMC meeting, even with strong positive economic data pouring out from most of the US, this was more than offset by the signals from the Federal Reserve (Fed) who consider ending tapering "perhaps a few months sooner". The decline in equities was notably more in the technology side of the market sector which once again contributes as to why the US had such a torrid time this month which resulted in the VIX hitting its highest level this year.
- The impact that Omicron had on the US markets was clear from the start as even the first Omicron case reported in the US rattled markets. As transmissibility of the new variant is greater than prior variants, we

Drivers of Market Conditions in December - Continued →

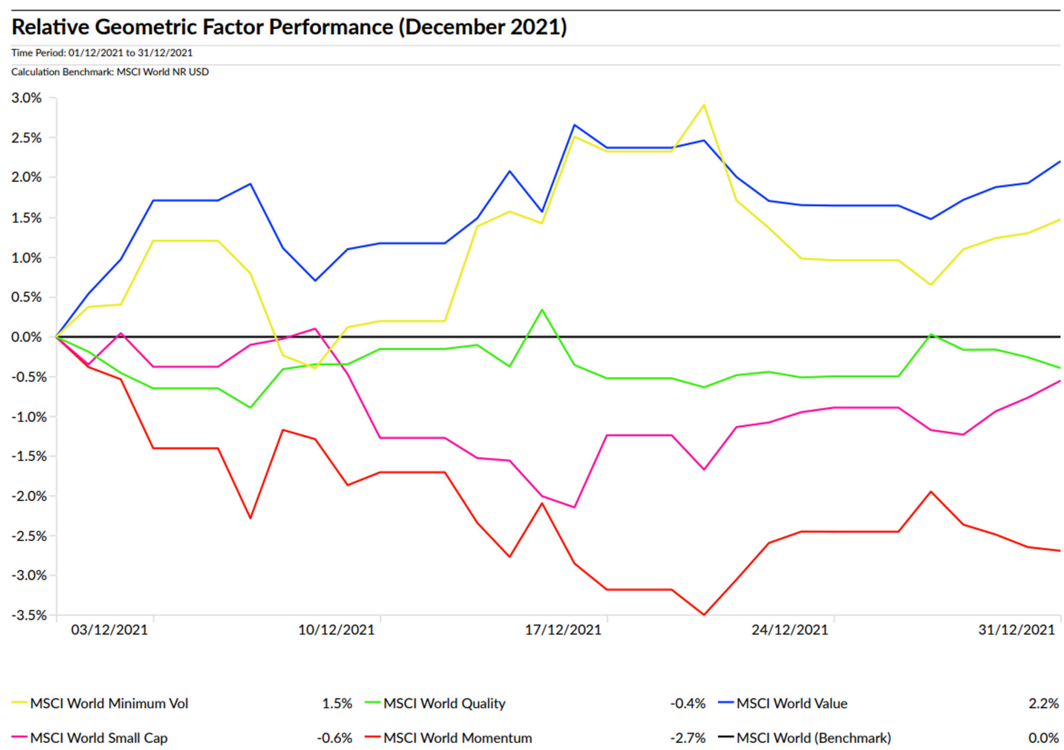
have seen vaccination continuing to serve as an effective tool to fight the virus. With this in mind, Europe and the UK have done a better job than the US and this effect has carried over into the equity markets. This being said, even with a record number of cases most countries now have a better understanding of COVID-19 and have implemented effective health policies accompanied by an effective form of vaccine deployment, which has allowed economies to continue despite successive virus waves.

- While virus concerns have heckled markets, there was also a continuation of inflation fears. The Fed is now attempting to thread the needle of persistently-high inflation and economic support. In the US the Fed announced that tapering is now being accelerated and essentially has doubled with a target of $30billion a month now set. This means that the tapering should finish around March. Accordingly, rate hikes are now forecast for March, June, and September of 2022, with three per year after that. There have been similar policies of reducing the number of security purchases throughout developed markets, the European Central Bank announced a reduction in PEPP purchases, ultimately to end in March.

- UK equities were the best performing region for the month and the UK has generally been proactive in fighting against the virus and inflation concerns. The UK has tightened restrictions in response to the Omicron variant and in addition, the Bank of England raised the Bank Rate to 0.25%.

- Before the Feds announcement, the US Treasury yield kept rising due to speculation and markers pricing in an accelerated asset purchase tapering timeline and potential for sooner-than-expected rate hikes. This was a result of Chairman Powell's hawkish Congressional testimony. As we have the luxury of hindsight we can now tell that this speculation was met with actuality as the pace of tapering has been increased. While yields increased as a whole in December there was a dip in the middle of the month, caused by fears about slowing long-term growth driven by a high inflationary environment. Strong economic data towards the end of the month supported yields to increase to 1.51% with a better than expected jobless claim report.

How did Factors Perform in December?



The chart shows the relative Factor performance benchmarked against a global index (MSCI World). Performance data is for each factor index over the course of the month, with the market benchmark being the black line horizontally shown along the x-axis.

How did Factors Perform in December? →

- The current market environment of high expectations of stronger economic growth and inflation favoured Value over Growth. Value has continued to thrive in a state of economic reopening as would be expected by a prominently cyclical Factor.

- The rotation toward Value comes at the expense of Momentum, throughout the last quarter due to IT companies doing so well the Momentum factor has been saturated with the sector and due to this fell victim to the US equity sell-off in December.

- Minimum Volatility continues to play its role in an uncertain market environment and was the second-best performing factor of the month. The factor deliberately seeks to curtail upside moves by enhancing support on the downside, and we can see that in December as the factor did precisely what it is engineered to do and acted as a safeguard against periods of uncertainty and volatility.

FACTOR PERFORMANCE (%)						
As of 31/12/2021	1-MONTH	3-MONTHS	YTD	1-YEARS	3-YEARS	5-YEARS
MSCI World Value	4.10	6.71	23.07	23.07	37.98	39.86
MSCI World Minimum Vol	3.36	6.41	15.31	15.31	35.79	51.42
MSCI World	1.85	7.28	22.94	22.94	69.50	83.75
MSCI World Quality	1.45	9.76	26.82	26.82	96.49	126.92
MSCI World Small Cap	1.29	1.77	16.82	16.82	59.28	63.28
MSCI World Momentum	-0.88	5.29	15.70	15.70	76.53	119.97

Source: Morningstar

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