RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

January 2021

Market overview

January saw continued optimism for risk assets such as equities and bonds, following the global roll-out of COVID-19 vaccinations coupled with the promise of further monetary stimulus from central banks. This was despite near-term headwinds, such as renewed winter lockdowns and new variants of the disease, which were overlooked by investors.

However, January's early market gains were lost towards the month end following a coordinated effort by a group of retail investors to increase the share price of heavily shorted stocks, typically held by hedge funds. This "short squeeze" caused a spike in volatility across a range of markets as share prices in these stocks rose sharply.

These actions may have increased short-term market volatility but economic recoveries in 2021 are still likely to be some of the largest on record, with the more resilient economies of Asia and the US looking set to come through the crisis in better shape than the UK and continental Europe.

Strategy positioning

The Investment Committee remain comfortable with their decision to increase stockmarket exposure to the upper end of each mandates' strategic range in December. The backdrop for equities remains very positive with continued central bank support and ultra-low interest rates, therefore no changes were made in January.

An allocation made to the thematic and global sector in December has already delivered strong short-term performance and these themes should continue to benefit from long-term growth and policy support from all key regions of the world.

An increased position within the mandates' fixed interest exposure to corporate fixed interest investments, which specifically target high quality, investment grade corporate bonds and offer prospects for attractive income and capital growth, remains. Whilst yet to materialise, a close eye is being kept on inflation and the potential impact this will have on market sentiment both positive and negative.

The "short squeeze" and subsequent spike in market volatility seen towards the end of the month brought the use of short positions to the attention of mainstream media. A short position is where an investor sells a stock in the anticipation that the share price will fall, so that they can buy back the stock at a lower price. While mandates have exposure to alternative investment funds using similar strategies, our selected underlying fund managers favour avoiding crowded or controversial investments and as a result, the effects of the short squeeze have been largely immaterial. The 'market-neutral' alternative investments within the mandates continue to be closely monitored.

All strategies remain well diversified, and positioned with an optimal blend of opportunity assets and defensive assets according to each mandate risk level.

Risk warnings