RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

February 2021

Market overview

Fuelled by the swift COVID-19 vaccination rollout as well as the continuing decline in the number of new infections, February saw global markets rise as investors shrugged off the market volatility caused by the coordinated attacks on short sellers of GameStop shares towards the end of January.

There has also been a cyclical move in recent months as economies continue to reopen, with lower-valued sectors of the market continuing to fare well. Investors were, however, spooked towards the end of the month by the steepening of yield curves and the prospects of rising inflation. The key drivers behind these inflation concerns were the US stimulus package as well as faster economic growth potentially triggering a reversal in the monetary policy stances of central banks.

Whether this has been an overreaction is yet to be seen but the Investment Committee believe that further conditions need to be met before monetary policy becomes less accommodative. Additionally, central bank rhetoric regarding monetary policy remains in support of keeping interest rates lower for the time being and a willingness to let inflation run hot in the short term.

Strategy positioning

With the easing of lockdown restrictions starting to take place in March, the Investment Committee continue to closely monitor current events and where necessary, will modify the mandates to ensure they are optimally positioned.

Whilst no strategic changes were made to the mandates during February, the Investment Committee identified a tactical change to improve the alternative investment exposure within them. It was agreed that the Artemis US Absolute Return fund would be sold in March, with the proceeds redistributed to other absolute return funds. Further details of this redistribution will be communicated once the change has been implemented across the mandates.

Some minor asset allocation adjustments will also be made to maintain alignment with each mandates' corresponding Dynamic Planner risk profile. This is not unexpected given the combination of market volatility and an increased risk position within the risk profiles during Q4, and is part of the work carried out with Dynamic Planner each quarter to ensure compliance with their Risk Target Managed protocols.

Much of the early 2021 market volatility has been driven by the potential expectation of rising interest rates. The Investment Committee are still of the view that the backdrop for risk-based assets is extremely supportive and the mandates remain at the upper end of their equity ranges. The mandates are also well placed to dampen some of this volatility for clients with a balance between both 'growth' and 'value' orientated opportunities at an underlying fund level.

The mandates maintain an increased exposure to corporate fixed interest investments that specifically target high quality, investment grade corporate bonds and that provide prospects for attractive income and capital growth. The steepening yield curves and increased investor concerns over rising inflation seen towards the end of February have been noted by the Investment Committee and continue to be closely monitored.

The Investment Committee remain comfortable with the approach to commercial property, with a zero weighting across all mandates. Gated property funds have hit the headlines again, with trapped investors estimated to have paid over £40m in management fees during 2020, so it is pleasing to have avoided last year's liquidity issues relating to commercial property.

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

Risk warnings