



Investment commentary

April 2021

Market overview

April was another strong month for equities with developed markets rising nearly 5%. The rollout of vaccines in the UK and US continues apace and, encouragingly, is accelerating in Europe and this has given markets greater confidence in the extent and speed of the economic recovery.

Recent economic data is also proving supportive – the US economy grew by an annualised 6.4% in Q1 and consumer confidence is rebounding strongly, buoyed by the stimulus payments individuals have received and a release of some of the accumulated savings made over the last year. Joe Biden is proving ready and willing to keep the stimulus coming, announcing further planned packages in the shape of the American Jobs and Families Plans.

In the UK, both manufacturing and services Purchasing Managers Indexes continue to rebound strongly (both now above 60) and the evidence also suggests a strong recovery in retail sales as restrictions are being lifted. Economic recovery remains more muted in the eurozone although there are tentative signs of a return to positive territory after a marginal contraction in Q1.

Within emerging markets most economies, including China, remain resilient however the worsening situation with the virus in India is clearly a cause for concern and will likely lead to a further shorter-term period of economic contraction.

We have highlighted before our expectation that we will likely see multiple swings in sentiment towards 'value' and 'growth' areas of the market and April saw a swing back towards growth (6.3% vs 3.2%).

Inflation data and expectations remain key. Shorter-term indicators in most key regions continue to shift upwards however there has been no change in rhetoric from central banks, which continue to refer to this as a transitory rise, stemming largely from a rebound in some of the Covid-lead inflation dampeners of the last year. This remains our view and we expect inflation to moderate back down into 2022 and rates to remain on hold for some time. We note that bond markets have stabilised and we still think the rise in yields in Q1 may have been an overreaction. Looking again to the US, job creation is accelerating however there is still some way to go to reach the 'maximum employment' level that the US Federal Reserve has indicated as a key criteria for a step change in its asset purchase and interest rate policy.

Strategy positioning

The Investment Committee's expectation of a strong global economic recovery, of interest rates remaining on hold for some time to come and of continued stimulus from governments and central banks means that each mandate remains at the upper end of their corresponding Dynamic Planner risk profile.

From a regional perspective, stockmarket exposure remains skewed to the US and Asia where the relative economic growth outlook remains strongest. The Investment Committee remains of the view that a blended approach to style remains appropriate.

Fixed income exposure is well diversified and is mainly allocated to investment grade corporate and inflation-linked bonds as well as to strategic bond managers who can dynamically manage exposures to interest rates, currencies and credit quality as market expectations and yields shift. The Investment Committee believes that fixed income markets remain supported given its views on muted inflation, interest rates remaining locked low, and of continued asset purchases from central banks.

The alternatives portfolio is positioned to stabilise portfolio returns and provide a degree of protection against any shorter term periods of market weakness.

Risk warnings

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